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Proceedings

of the
Ninth Mid-Winter
Trust Conference

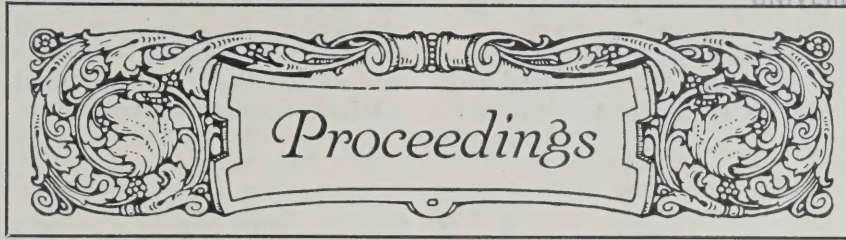
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TRUST COMPANY DIVISION
AMERICAN BANKERS ASSOCIATION
110 East 42nd St., New York

Radio Talks



FIRST SESSION

Tuesday Morning, February 14, 1928.

THE Ninth Mid-winter Trust Conference of the Trust Company Division of the American Bankers Association convened at the Commodore Hotel, New York City, at ten-thirty o'clock, Mr. A. V. Morton, Chairman of the Executive Committee, Trust Company Division, American Bankers Association and Vice-President of the Pennsylvania Company for Insurance on Lives and Granting Annuities, Philadelphia, Pa., presiding.

MR. WALTER S. McLUCAS, President, Trust Company Division, American Bankers Association, and Chairman of the Board, Commerce Trust Company, Kansas City, Mo., assumed the chair.

MR. McLUCAS: This is the Ninth Mid-winter Trust Conference. You all recall that nine years ago the Trust Company Division of the American Bankers Association inaugurated the conference idea of that Association. These conferences have grown from one day sessions, when we started, and now they include three and four day sessions.

Last year, I remember, we had about five hundred people who attended sessions steadily for three days. This year, in addition to the regular conference sessions, we had a meeting of an important Division Committee on Monday and have other meetings set for Friday.

Last year and this year it has not been a Conference of trust company men only, but it has been a conference of trust department men with whatever class of institution they might be associated. It has been the custom at these conferences to have the Vice-President of the Trust Company Division preside. As it has been necessary for Mr. Perkins, the Vice-President for this year, to be absent from New York during today's and part of tomorrow's sessions, Mr. A. V. Morton, Chairman of the Executive Committee of the Trust Company Division, will preside, today. Mr. Morton.

Mr. Morton assumed the chair.

CHAIRMAN MORTON: Mr. President and members of the Division: I am sorry that Mr. Perkins is prevented from attending this session of the Conference, and on his behalf I am glad to welcome this representative group of trust company executives.

The Mid-winter and Regional Trust Conferences have proved of great value. They are opportunities for serious-minded men to gather to discuss mutual problems and thus to promote and elevate by discussion fiduciary service to the country. Mr. Perkins and Mr. Mershon have mapped out an interesting program. It is our desire that each man here may participate in the discussion of such subjects as may appeal to him.

This conference is tinged with sadness; Mr. Mershon is leaving us. In the years in which he has served as Secretary of the Division, he has, by his conscientious and loyal devotion to his work, made an outstanding contribution to the trust company movement in this country. From one end of the country to the other, he has placed himself at the call of trust company men. He has counseled with them; he has guided them in their problems, and he has given himself without stint to promote the interest of the institutions which we represent.

Mr. Mershon has accepted a vice-presidency of the United States Mortgage and Trust Company, one of the great institutions of this city, whose destinies are guided by John W. Platten, in whom the Trust Company Division has no better friend. I think it would be difficult for me to express the feelings of the men who have been associated with Mr. Mershon, to attempt to tell him of our regrets at his going, or to express our feeling of friendship and the good wishes we extend to him in his new work. I think that in saying that, I am expressing the sentiments of every man in this room. Mr. Mershon, we wish you well, sir, and good luck, prosperity and happiness in the years to come. (Applause).

MR. MERSHON: I will say, from a full heart, that it has been a great privilege to have been connected with this work and to have been associated with you men over a period of eleven and one-half years. It is impossible to lay it down without some regrets. However, I want to continue to have the same cordial relations with you all that I have had in the past.

I believe this conference is going to be the best that has ever been held under the auspices of the Trust Company Division. Under the guidance of Vice-Presi-

dent Perkins, we have put our best efforts into building a program that will help you in your daily work, and enable you to serve better after you go home.

CHAIRMAN MORTON: Our first speaker this morning needs no introduction to any representative gathering of trust company men. Mr. Sisson has been actively as-

sociated with this Division for many years, and has served as its executive officer. He has for years been campaigning for sound, constructive publicity on the part of trust companies. I know that Mr. Sisson will give us something to think about, and it is a great pleasure for me to call upon him.

When a Good Idea Takes Hold

By FRANCIS H. SISSON

Vice-President, The Guaranty Trust Company, New York, N. Y.

I DON'T know why I should have to start off the program today, except on the theory that is given in the Biblical quotation of the Psalms of the Prophet, when he said, "Blessed are the feet of him who bringeth good tidings," and it is my privilege to bring you good tidings. I get tired, in my activity, of stressing the point which we have stressed for seven years, on the great store of publicity which we have and its value in the application of our work, and I sometimes think I ought to be padlocked and muzzled at these conferences.

However, the message which we have for today is an interesting one, and was compiled by the office staff—as are most of the good things which you get. We serve the purpose of sponsoring them.

The United States is growing estate-minded. This is a cheering message to bring to the trust officers of our financial institutions. The statement is based on the results of a national survey just completed by the Trust Company Division of the American Bankers Association. While the steady and consistent growth in the resources of the trust companies has indicated the increasing part that they are playing in the economic life of the nation, there has not been adequately revealed the vital—if unobtrusive—role that they are filling in conserving the estates that are left behind.

This important service is seldom shown in the balance sheet—so the public at large is hardly conscious of the billions of dollars in trust funds that the corporate fiduciaries are holding and safeguarding for individuals. It is not uncommon for a large trust company to have more in individual trust funds than it has in deposits. I am willing to venture the opinion that the American people are only partially conscious of what great services the modern corporate fiduciary performs—and can perform—in their behalf.

Increasing Number of Appointments

IN December, the Committee on Publicity of the Trust Company Division sent out a questionnaire to trust companies and banks doing a trust business. In this, it requested them to report how many times during each of the past five years they had been named as executor or trustee under wills. This included wills that had already been probated and wills in which these in-

stitutions knew that they had been named. Returns have come in from more than one thousand institutions, located in all sections of the country. When the responses were compiled, they showed a perfectly astounding fact: The number of times that these trust companies and banks were named as executor or trustee under wills during 1927 was four and one-half times as great as the total for 1923. Indeed, the 1927 total was greater than the combined figures for the three years 1923, 1924 and 1925!

It is hard for anyone to grasp just what these figures mean—what a striking testimonial this is of the growing public recognition of their superiority in the settlement of estates, but once a good idea takes hold in the United States—and there can be no doubt but that it is taking hold—it spreads with rapidity.

Sometimes trust men have sought in vain for a satisfactory answer to the perplexing question of why a successful American will devote a busy lifetime to acquire a fortune and yet fail to spend the part of a single day required to take the simple steps necessary to conserve his estate. It is claimed that only fifteen out of every hundred Americans who leave estates leave wills. Why this is true, is one of life's little mysteries to me. But, if we have despaired over this national shortcoming, perhaps we can find a measure of encouragement in the present strong trend toward the corporate executor and trustee.

Wills of Prominent Men

THERE is another development of just as much significance: Within the past two or three years, some of the ablest and most prominent men in the United States—the captains of industry, the nation's greatest publicists, our foremost financiers and men of outstanding achievement—have named corporate fiduciaries to settle their estates or to see that their wishes, expressed in their wills, are carried out through trust funds. When their wills were probated—and thus made public through the newspapers—it was found that such eminent men as the late Judge Elbert H. Gary, the head of America's largest industrial enterprise; Frank A. Munsey and Victor Lawson—the two great publishers; Washington A. Roebling, the builder of Brooklyn Bridge; W. D. Packard, the automobile manufacturer;

J. Ogden Armour, one of the Big Four Packers; John Washburn, the flour miller; Andrew W. Preston, president of the United Fruit Company; R. J. Reynolds, the tobacco manufacturer; John F. Dodge, the Detroit automobile manufacturer; James Oliver Curwood, the writer and noted conservationist; Frederick F. Fitzpatrick, the head of the American Locomotive Company; Henry Huntington, the railroad builder and patron of arts; James E. Madden, sportsman and breeder of thoroughbred horses, and W. M. Wood, the head of the American Woolen Company, had included themselves in this list. Such a list might be extended at length by adding the names of other men who won reputations during their lifetimes for conspicuous achievement and for their fine sense of money values. Intrusting the settlement of their estates to these trust organizations was, of course, due to recognition of the fact that the corporate executor is better qualified than any private individual to handle such an involved and intricate task. For what individual has sound business judgment, proved investment ability, thorough investment information, unquestioned financial standing, well organized clerical facilities and a continuing existence, all of which are essential requirements in the proper management of an estate?

In the financial world the same trend is to be observed; the officers and directors of trust companies and banks are naming their own companies to act as executors and trustees under their own wills. When such an official intrusts the settlement of his own estate to the institution with which he has been identified, this is certainly a most convincing demonstration of faith in the service that is offered to the public. So when the will of the late John J. Mitchell, the executive head of a great Chicago trust company, was probated, it was found that he had named his own institution as executor and trustee; Francis L. Hine, Chairman of the Board of one of New York's oldest national banks, designated his own bank in his will to administer trust funds. These are merely two instances out of many that might be cited to show the faith of bankers in the corporate fiduciary.

It is a natural ambition for any trust company or bank doing a trust business to seek the handling of the largest estates; and, if we will inspect the record, it will be shown that these men and women, who have built up fortunes through their financial judgment, have come to recognize the advantages that the experienced corporate fiduciary has over even the best qualified individual.

Million Dollar Estates

IN the questionnaire that the Trust Company Division sent out, the trust companies and banks were requested to set down the number of million dollar estates, in which they had been named to act as executor or trustee. While a considerable number of institutions replied that they did not have the information classified in this exact form, a compilation of the returns where the million dollar estates were specifically mentioned reveals that this group of trust companies and banks has been named during the past five years in a total

of 668 estates valued at a million dollars or more. A striking contrast is afforded by reflecting that George Washington, one of the wealthiest men of his time, left an estate worth only \$530,000 at his death.

Here again the trend is impressive: In 1923, the total of million dollar estates was 48; in 1924, 69; in 1925, 101; in 1926, 151, and in 1927 a total of 298. In other words, the number of times that trust companies and banks were named as executor or trustee in estates of \$1,000,000 or more during the past year was six times as great as in 1923.

Mentioning million dollar estates might lead the public to the erroneous conclusion that trust service is available for only the very wealthy. Nothing could be more unfortunate and nothing could be farther from the truth. Men of moderate means as well as men of wealth all over the country are leaving the work of settling their estates in the hands of those who make a specialized business of it. A large number of trust companies have had years of experience in handling every detail of estate management—so they have highly trained staffs and all the equipment for performing this intricate and exacting work.

Totals for Past Five Years

SOME interesting facts are disclosed by the returns from the 1,091 trust companies and banks, of which 322 reported that they either had not sought this business or that they had not actually served in the capacity of executor or trustee.

The grand totals for the five years—showing the number of times that the 750 active institutions were named as executor or trustee under wills—are as follows:

1923	1924	1925	1926	1927
5,899	7,878	12,926	19,128	27,983

Naturally the trust companies, which have been established for a number of years and have advertised their services, succeed in getting the largest number of estates for settlement. While there is no way of telling which trust companies and banks were among those reporting their results, one institution revealed that it had been named 3,000 times during 1927. There was one other corporate fiduciary in the thousand-or-better class.

There were 27 institutions, which were named 200 times or more during 1927.

There were 44 institutions which were named between 100 and 200 times during 1927.

There were 60 institutions which were named between 50 or 100 times during the past year.

Thus, it may be observed that only about one-sixth of the trust companies and banks which replied to this inquiry succeeded in being named annually as executor or trustee under fifty or more wills. However, there is this to be taken into account in considering these figures: In a great many instances, trust companies and banks have been named in wills that have been drawn, although this fact is not known to them, because the wills are not intrusted to them for safekeeping.

Large Estates in Smaller Cities

ANOTHER noteworthy feature of this national survey is the number of cases in which trust companies and banks in the smaller cities report that they have been appointed to act under wills involving million dollar estates. If anyone has the notion that the habitat of the millionaires is confined to our largest cities, this false idea would have speedily vanished by an inspection of the responses to this questionnaire.

In one small town in a section where an oil boom brought in gushers of wealth, one small institution reported it had been named as executor or trustee in five million-dollar estates during one year and in six similar estates the next year. In a sizeable city in the Southwest, one company reported that it had been designated as executor or trustee under 47 wills during 1927—nine of which were for estates of a million dollars or more. The previous year, out of 22 designations seven were for estates in this class.

In a nearby eastern state, one trust company wrote that it had been named under about 125 wills, of which ten were for estates of over the million dollar mark. In one of the eastern cities an institution just one year old reported it had been named in twenty wills all carrying trust features and five of this number were in the million dollar class. From a little midwestern city, a small bank wrote in to state that it had been named under a single will in 1923 and again one time in 1924. There was no result the next year and four for 1926. However, 1927 revealed that the bank had been designated under eleven wills, one of which was drawn covering a million dollar estate. "The trust business was not advertised or solicited until the middle of 1927"—a pencil notation on the questionnaire sheet read.

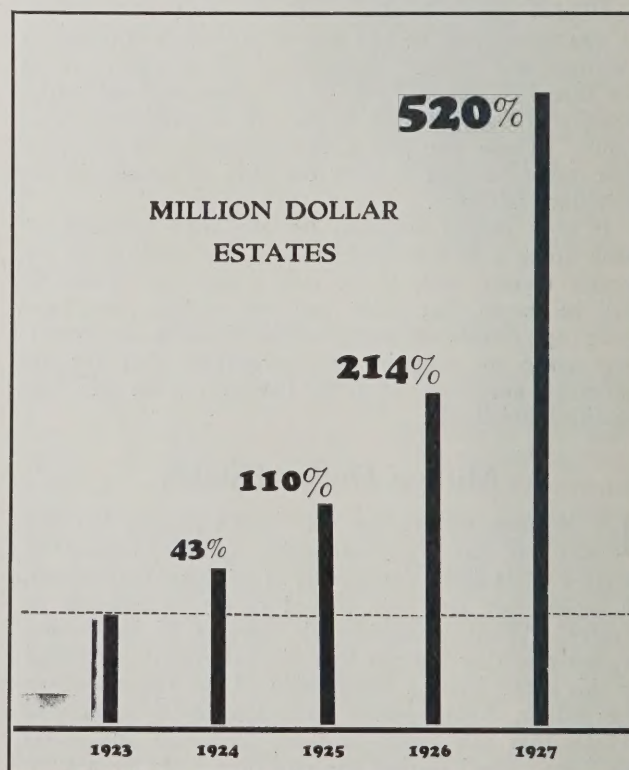
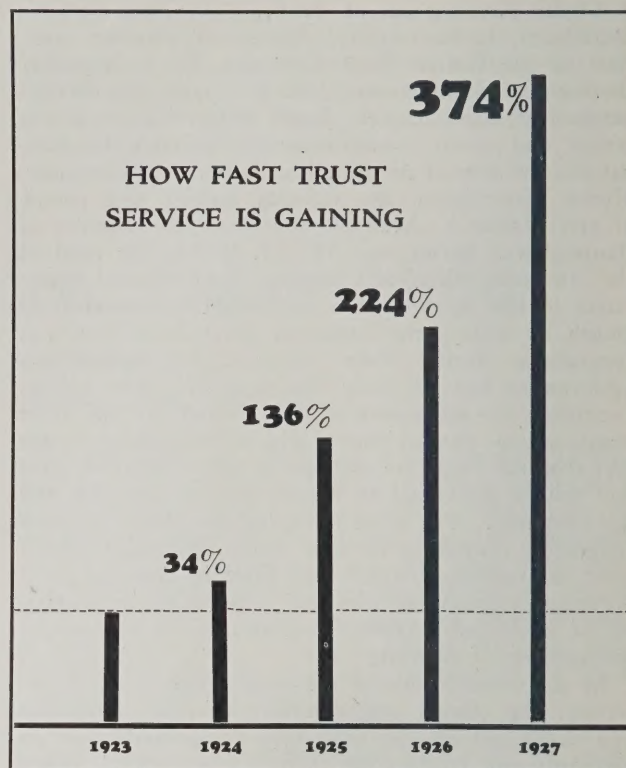
It cannot be said that million dollar estates are common in all parts of the United States. "There ain't no such animal around here," one corn-belt banker observed, with compelling candor. However, not more than two or three hundred miles from there, a trust officer wrote: "In our community, estates over \$1,000,000 are exceedingly rare. However, of late there seems to have been an increase in middle sized estates—that is, those ranging between \$500,000 and \$1,000,000.

The wider distribution of wealth in this country is opening up opportunities for trust service that were little dreamed of a few years ago.

Extension of Trust Service

REVIEWING the results of this national survey, the conclusion that trust service is making sweeping strides would appear to be fully justified. A 374 per cent increase in four years certainly would impress anyone, who follows the trends of business. There appears to be every indication that this growth will continue, for, as I remarked before, the trust company development is hardly through the pioneering period, and the American people as a whole are just beginning to recognize the superior qualifications of the corporate executor and trustee over the individual executor.

Personally, I must confess a great deal of satisfaction over the impressive increases that have been shown dur-



ing each of the past five years in the growth of this important trust service. The trust company has existed as an institution, qualified for more than a hundred years to serve in these capacities. It may be recalled, however, that only slightly more than seven years ago, this Division undertook through its national publicity work to acquaint the American people with the superior way in which the trust companies could serve them. With the funds subscribed by a number of institutions, it engaged in an advertising campaign in a number of the leading national magazines. A local advertising service was made available at a nominal cost to the smaller trust companies and banks, to tie in with the general advertising. The national campaign was discontinued because a number of the trust companies, at that time, could not see in the immediate direct results enough of a response to justify their further participation. While those of us who had long experience in advertising have sought to emphasize that it is rarely possible to trace the sale of a service directly to a campaign, we never had any doubt but that the cumulative effect of the effort would prove to be most valuable in breaking down the barriers to the extension of trust service.

In my opinion, it is significant that these striking increases in the growth of personal trust service have followed in the wake of our common publicity effort; although I am not unmindful of the fact that the trust companies and banks have constantly enlarged their individual appropriations for informing the American people of the many ways in which they can serve them. Again, it is noteworthy that the institutions which have been most consistent in carrying their message to the public, have shown the greatest growth.

The American people take to a good idea with surprising alacrity. It is within our means to speed up that impressive movement.

These charts tell their own story. They show impressively the tremendous growth both in fiduciary service and in million-dollar estates. The vastly increased amount of wealth entrusted to us by the expansion of this service can be computed in similar charts.

We don't want to frighten the world with our tremendous growth or with the high degree of trusteeship which the public impose in us; but, Gentlemen, here are the pictures and they tell the story that the harvest is ripe for us. May we garner it successfully!

CHAIRMAN MORTON: Gentlemen, I think there must be a relationship between these interesting statistics which Mr. Sisson has given us, and the work of the Publicity Committee of this Division, of which he has been the head for so many years. It is very impressive, and I think the members of Mr. Sisson's committee deserve the greatest credit for the work which they have done.

I presume that many of us look upon the cost of financial advertising as a necessary evil, that we have spent as little money upon it as we could, and that the work in many companies has been delegated to some overworked executive who has done it at odd minutes and at the end of the day when he has been tired by the labors of that day.

Mr. Sisson has given us this story from the point of view of the man inside the trust company, and it is going to be our privilege now to get the point of view of the agency man. Our speaker is Mr. John Benson, member of the advertising agency of Benson, Gamble, Johnson and Read of Chicago, and who has been recently elected president of the American Association of Advertising Agencies for a four-year term. It gives me great pleasure to introduce to you Mr. Benson!

How the Agency Man Views Financial Advertising

By JOHN BENSON

President, American Association of Advertising Agencies, New York, N. Y.

I HAVE been asked to tell you briefly how the advertising agency regards financial advertising, as a practicing agent who is familiar with it, and also as head of the national body of advertising agents, representing the viewpoint of our industry as a whole.

What we advertising men think of bankers and what they think of us is, I believe, of vital import to the interests of either and to the welfare of business. You represent money and credit; and we represent promotion. We handle a force which expands and stabilizes business, creates and distributes wealth. That makes a market for your service.

You, on the other hand, furnish the money which makes our operations possible. With advertising as

extensive and costly as modern conditions demand, large sums are needed to do it—larger sums than are always available without resort to bank credit.

It makes a big difference to us how bankers regard advertising; how willing they are to lend money to do it; and it makes a big difference to you bankers how sound an advertising campaign is for which you furnish credit. It may be a constructive venture for the borrower, or it may be a waste of money.

Certainly we advertising agents should know more about credit as the financial foundation of our work; and you bankers, I believe, should know more about advertising, how it works, when it is sound, what to expect from it. This does not mean that you should

be technical experts; rather, that you should be good judges of policy and method employed.

How can that be brought about? By taking a lively interest in the advertising plans and problems of your commercial customers. By advertising yourselves and learning by experience. Also, I believe, by employing an advertising agency to handle your advertising. That is a very helpful relationship for both. It gives the banker a new viewpoint of promotion, and it gives to the agency a financial sense of practical value to his business.

What Advertising Can Accomplish

ADVERTISING, as everybody knows, has been a big factor in stimulating trade, in supporting mass production, in raising the standard of living. It has been in many ways the heartbeat of commerce. But people unfamiliar with it do not realize its full economic function, how it not only stimulates but regulates business; how delicate an adjustment it makes between large-scale production and widespread consumption, how it steadies output, finds an outlet for it.

Nor does the layman realize what advertising can do in the future to solve the most stubborn and the most vital problem confronting American business: the high cost of distribution.

When I think what advertising may accomplish in this respect I am thrilled at the prospect.

The tide of trade, of merchandise flowing from the producer to the consumer, is propelled by two great forces; the one pushing from the producer's end, the other pulling from the consumer's. These two forces give momentum to American business. The extent to which each one operates in proportion to the other makes all the difference in the world in the cost of distribution and in the cost of living. The one is tremendously expensive; the other costs relatively little. The more pull you get into the consumer's end, the less push is required at the producer's end. If advertising does become the pulling power it can become, we may save billions now being expended in trying to shove down people's throats what they should be glad to buy of their own volition, more or less.

If advertising could become more of a buying guide for the masses than it is, stimulating not only natural desire for more and better things, but also for particular brands, so that the purchaser would universally take the initiative and ask for what he wants, what a revolution would occur! Much of the enormous pressure behind selling could be released. We might sell a little less, at first, but at much better profit, and at prices so much lower that purchasing power might eventually be doubled. Think what that would mean in the recovery of volume along *sound* lines.

How can advertising be made to function more actively as a buying guide? Simply by gaining and holding more popular confidence in its statements, by making those statements more sincere, more informative and more helpful to the reader. Much improvement has been made in this direction; much more needs to be done.

Need for Research

I BELIEVE financial advertising can well afford to study the trends and methods of commercial advertising. Let me refer to them briefly. They are first: Research, the ascertaining of facts regarding the market for a product, regarding competition, popular acceptance of the product and its price, the circulations employed, effectiveness of the appeal. You cannot conduct an advertising campaign without facts any more than you can conduct a political or military campaign; you may employ clever ideas and modern guns in either case and waste your powder on a wrong objective. You can sell people only what they want or can be induced to want; you can induce them only through arguments which appeal; you can reach them only through channels which they read. That is obvious, and still research into these questions I believe is seldom employed by financial advertisers.

They should utilize research to find out how people feel about their service; how much the public knows or cares about trusteeship; what it thinks about a trust company as executor of wills; how it regards the charges. In Chicago I have personally interviewed many men of affairs, both large and small, and have learned some surprising things about their attitude towards trusteeship, etc. Some of them have deep-rooted prejudices; they feel, for instance, that leaving an estate to a trust company converts live assets of high earning power into dead ones of low earning power; that a going business would be liquidated at once at any sacrifice; that a trust company is a cold institution which takes no personal interest in the heirs. You know how untrue are such ideas applied at least to the best trust companies. Then there is the misconception about cost and size of estate acceptable. These barriers can be removed by the proper appeal, after you know them.

Financial advertisers should know more about the media they use; how far they reach a desired market; the purchasing power of readers; the extent and locality of circulation; how much one paper duplicates another; how much financial influence it exerts.

Commercial advertisers study these questions through research. I know of some financial advertisers who do; but they are few and far between. Many use all the papers in town indiscriminately. Think of the waste!

Employing a competent agency to do your advertising has among other advantages this, that it is in touch with such investigations of media, knows how to make them, and often can draw on others' experience. If a member of the Four A's, the agent has access to the results of important research studies undertaken by Headquarters. He is in a position to intelligently direct your expenditure.

In Chicago we analyze annually the Probate Court records to determine the possibilities of our market for trusteeship. We find out how much there is of it and where it goes, how much to trust companies and how much to individuals; also, how each trust company compares. These figures are illuminating and make good material for advertising and selling.

Such a fact, for instance, as the longer time generally required to settle an estate in the hands of an individual,

makes a fine argument for trust company service. Another interesting thing to find out is the reaction of women to the idea of trusteeship—how they regard it—whether they approve it.

Copy Should Be Frank and Informative

ANOTHER trend of commercial advertising is to be frank and informative in copy appeal. Of course much advertising is not frank nor informative; quite the reverse; but that is at present raising a storm of protest which indicates the way we advertising men think. There is an active movement on foot for sincerity of appeal. Financial advertising should be even more frank than commercial advertising. It is essentially honest. People believe it. But it is often lacking in information which the reader needs to arouse a lively interest in your product.

For instance, in trust advertising, why is so little mention made of the cost of it? Fees have been standardized for various forms of service; why not print them? That would remove a lot of prejudice on the part of people who think of a trust company as being expensive. As a matter of fact, the cost of trusteeship and agency service is remarkably low; the public does not know that. And again, why not tell in your advertising how small an estate can be profitably handled; you need not commit yourself by saying how small an estate you are willing to accept. Many people with \$25,000, \$50,000, and even \$100,000 to leave, in clean liquid form, may hesitate to approach a trust company for fear of the amount being too small. On the other hand, it does no harm to discourage very small estates by indicating a limit; you don't want them anyway, and it is easier to discourage them in print than to invite them and then turn them down.

Bond circulars are not always enlightening. They do not intrigue the average man. He gets lost in their technical mazes. The salient points he wants to know are buried in a mass of legal and financial verbiage. And they do not satisfy the experienced investor. They do not disclose all the facts he wants to know. He has to probe further for essentials; often has recourse to the buying department to find them. For instance, many bond circulars do not state frankly the equity behind the loan, its appraised value; usually one is told that it exceeds by a good margin the amount of the issue. Sometimes earnings are not clearly stated; figures may be given, but they are not really net. The ratio may be three to one or two to one, of earnings to bond interest, before depreciation and taxes. Of what use is that? Depreciation is a necessary charge and taxes must be paid ahead of bond interest. The difference may easily change a three to one ratio into a two to one.

In the case of public utilities, the investor is asked to be content with 5% or less on the theory that public utility bonds are safer than industrials, not being so subject to the fluctuations of business. That theory is not so sound when applied to a public utility whose earnings are overwhelmingly industrial; certainly a business depression would make a big gap. Circulars say little or nothing definite about sources of income, how much residential and how much industrial. Earnings

are shown in a steady rise from year to year, without indicating how much acquired properties have to do with it.

Some of these criticisms may seem minor, but I believe, as an advertising man, that frankness is a big asset; it begets confidence and confidence is the life of advertising. As an advertising counsel I am in touch with many kinds of business, and I believe there is as much sincerity in the advertising business today as in any other I know. At least there is the desire for it and the conviction that it is a lasting foundation of success. Only insiders know what a barrier and protest advertising men put up against unfair or insincere appeal, or what a struggle highgrade publishers make against it.

Effectiveness of Simple Wording

COMMERCIAL copy is trending towards a simple, conversational form of speech. There is enough stereotyped phraseology employed, but there is more of it in financial appeal. Both trust and bond advertising have a tendency to lapse into financial shop talk, harping on outworn phraseology which comes to lose its appeal to the public. There is nothing so fresh and vigorous as plain Anglo-Saxon. That never grows stale; it is like bread and butter. Financial or any other specialized speech gets tiresome with use; it is like having ham and eggs for dinner every day.

The use of fresh and vigorous speech in advertising is a fine art. It sounds simple but it is far more different than using the Latinized phrasing of the commonplace writer. Try paraphrasing so simple a statement as the Lord's Prayer and see what you get. Or, Lincoln's letter to Mrs. Bixby.

Much commercial advertising these days is really fine literature in its phrasing. It is simple, dramatic, vigorous and colorful. It would freshen much financial advertising immeasurably if it followed suit in this respect.

And there are notable examples of it. The advertising of the Equitable Trust Company of New York, for instance. The advertisements make an incisive appeal with headline and picture, and a short Anglo-Saxon statement below. Then, for those who are interested in details, the usual trusteeship or investment story is told in fine print in a side panel. That is excellent strategy.

I believe more actual instances should be given in newspaper advertisements, illustrating in a dramatic way how trust companies serve people in both usual and unusual ways. Any experienced trust official knows of cases which would make interesting reading. No better advertising could be done.

Some bond advertising has greatly improved. The copy appeal has been humanized. It deals with everyday situations and ambitions in which sound investment is a factor. The response to this kind of advertising has been ample proof of its efficacy. Some financial houses have done a fine job informing the public about investments. They have consistently used their space to tell people how to invest money, how to safeguard against loss, what sound principles to observe, what are the

underlying values, where and how to purchase stocks and bonds. This is constructive; it helps the whole field and it pays the advertiser.

It has been quite the fashion lately in investment advertising to stress the disinterested service financial houses render the investor; how they regard his interest first, sell him securities which fit his needs. This is a commendable practice, but to be sincere it should be lived up to in a broad-minded way. For instance, in recommending a well balanced investment structure for a client, the bond house should not omit stocks, whether it handles them or not; they are an important element of diversification.

Much financial advertising falls far below this standard. It is still stereotyped and uninteresting. Some of it is archaic. You might as well print tombstones as some of the investment ads which appear. The rules of the Stock Exchange against attractive advertising seem a needless handicap. They fail to take into account that investment has become a popular fashion undertaken by millions of everyday people—people who care little for dignity, as such. They want to know interesting details. They respond to pictures and incisive headlines. You have to sell bonds in much the same way you sell motor cars and radios and soap. And the aggregate of small and medium investor business far exceeds that of any other group.

Should Invite Interview

I BELIEVE financial advertising should influence people more to buy on the premises of the house, rather than in the field. That is the underlying idea of most commercial advertising. The store is the place to buy, to see assortments, to get service. The bank or bond house is similarly a store where people can be served to advantage.

More trust advertising should be written with that end in view. In Chicago we have found that getting people to come into the Trust Department and talk with the officers is more than half the sale. It inspires confidence, draws out vital information, clears up misconceptions. Trust companies can serve themselves and the public by running advertisements which partially answer questions most commonly asked regarding trusteeship, es-

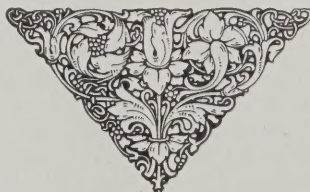
tates, taxes and investments, and then invite a conference in the bank to get the details applicable to a given situation. That is good strategy.

In the investment field it is even more important to urge people to come to the house for service. This is especially true of the smaller investor, say one who, in a large city, buys \$3,000 a year or less. It often does not pay to send a salesman to see him, unless you are selling securities with a wide margin of profit. The kind he should buy are low-margin; the kind he is offered are high-margin. It would be doing him a service to educate him to this fact; induce him to come to the bank or bond house for the kind of securities he should own. Counter selling and mail order are the only two profitable ways in which the great mass of smaller investors can be served, I believe, and advertising is the medium to induce this.

I hope you will not gather from the criticisms I have made of financial advertising that I do not have a high regard for it as a constructive and helpful force. It has been a notable development during the past decade; and it will have an even more notable development during the next. Some of the best advertising being done is by trust companies and bond houses.

The banking world will without question make as intelligent and effective use of advertising as it has long made of law and engineering and accounting, in the guidance and service of business. All we advertising men can do is to accelerate it. Ours is a relatively new business. We cannot expect it to command full confidence all at once at the hands of the most conservative business in the world, which is banking.

CHAIRMAN MORTON: We have heard from the publicity man inside the trust company and from the agency man on the outside. Coming as I do from Philadelphia, which has been rather conservative in its approach to progressive advertising, the thought of applying the ordinary industrial methods of advertising to trust service is rather startling, and therefore I am extremely anxious to hear what our next speaker has to say: Dr. Daniel Starch, Director of Research of the American Association of Advertising Agencies, formerly Professor in the Graduate School of Business Administration, Harvard University, and an author of noteworthy works on advertising psychology. It gives me great pleasure to introduce to you Dr. Starch.



Applying Progressive Marketing Methods to Trust Company Work

By DR. DANIEL STARCH

Director of Research, American Association of Advertising Agencies; formerly Professor in Graduate School of Business Administration, Harvard University

THIRTY-FIVE years ago, Professor Babcock, at the University of Wisconsin, invented what has since become known all over the world as the Babcock milk tester—a device for determining the amount of butter fat in milk. This instrument has done more than anything else to put dairying on a profitable businesslike basis. It is said that its value to the dairy industry of Wisconsin alone each year is greater than the entire cost of maintaining the University of that state. It is a device which enables the dairy farmer to know facts about his business he did not know before.

A discussion of the subject assigned to me necessarily raises the question, "What methods is industry using that trust companies are not using?" I hope I am not so naïve as to pretend to discuss this subject fully. It would require full knowledge of all phases of business such as only experts in the various fields of industry have.

You are all interested, of course, in making your facilities available to all who can and should use them—in short, in selling your services. First let us ask, "What is industry doing to sell its goods and services?"

Fact Finding Agencies

IF I were to say what is the most significant development in the field of marketing during the past ten or fifteen years, I would not say new methods of selling nor more aggressive selling. We have always had salesmen and we have always had some form of advertising. But industry is developing more intelligent, more accurately controlled selling. And what is at the bottom of that? Just one thing—facts. So in answer to my question, what is the most significant development in the field of marketing in recent years, I would say *fact finding*.

During the past two decades, there have arisen probably more fact finding agencies concerning business than in all preceding time. Not only are the trade and industrial associations accumulating facts and statistics concerning groups of industries, but especially are individual firms gathering facts concerning their specific products or businesses.

A recent government bulletin lists 99 trade and manufacturing associations ranging all the way from the "agricultural producers association" to the "writing-paper manufacturers association," each of which compiles information regarding its particular industry. The same bulletin gives a list of 160 separate concerns which compile information regarding their respective individual businesses. And finally it lists 237 institutions, foundations and commercial organizations engaged in securing

marketing information. This is a total of 500 organizations besides the various federal and state departments engaged in fact finding concerning markets and marketing methods.

The significant point is that practically all of these organizations have sprung up within the past ten or fifteen years. They all aim to supply facts which may be of direct or indirect value to industry in the marketing and distribution of goods.

Concretely, however, I wish to discuss specific examples of fact finding on the part of individual businesses designed to promote the distribution and sale of their products.

Perhaps the most important thing that industry has learned in recent years is the need for facts in directing the distribution side of business.

Determining the Market

THE manufacturer today realizes that in order to reach his market he must know what and where his market is. The more accurately he knows his market, the more effectively he is able to reach it.

Markets, of course, are people. What does a manufacturer or distributor want to know about his market? There are certain fundamental questions which must be raised in determining practically any market. Among them are the following:

1. Is there a market for the product?
2. How large is the market for the product?
3. Where is the market?
4. Through what channels and by what methods may the product be distributed?
5. How may the people who constitute the market be reached with sales efforts?
6. What kinds of sales efforts will be most effective?

The first question,—Is there a market for the product?—is already answered in the case of an established product and becomes important only in the case of a new product. The other questions require careful study if they are to be answered intelligently. Let me illustrate briefly how these questions were answered by a manufacturer of a household appliance which sells for \$300.

1. Is there a market for the product? This had already been answered by the fact that similar appliances had been sold successfully for some time although this particular make was new.
2. How large is the market for the product? In view of the price of the product and in view of the sale of similar appliances, the market was limited primarily to families whose income was \$5,000 and over. The possible size of the market was limited, therefore, to the number of families in the United States

with incomes of this amount or larger. According to an investigation made by our research department, it was found that there are at the present time approximately 2,050,000 families in the United States with incomes of \$5,000 and over. The conclusion follows that the immediate market would be limited to this number of units that might be sold unless cheaper models of this appliance are later manufactured. In case the retail price of the appliance could be reduced so as to include the \$4,000 income group, it would add another 900,000 families as a possible market.

Investigation further showed that there were only about 70,000 families which had this appliance in their homes leaving almost the entire total market untouched.

3. Where is the market? This question resolves itself into determining where, geographically, the families with incomes of \$5,000 and over are located. A compilation of income tax returns by counties in relation to population gives some definite indications as to the concentration of the market in specific areas. They show that considerably more than half of the possible purchasers of this appliance are in, or tributary to, 72 places with a population of over 100,000. This information is, of course, of definite value in making sales plans, in knowing where to concentrate sales efforts.
4. Through what channels and by what methods may the product be distributed? A manufacturer who had already been in the field for some time had branches or distributors in 80 cities in the United States and Canada. A study of the distribution methods of manufacturers of this type of appliance revealed the arrangements made between the manufacturers and distributors—the discounts allowed, how many were branches and how many individual distributors, provisions for service on the appliance and similar questions.
5. How may people who constitute the market be reached with sales efforts? An analysis of the manufacturers already in the field showed the work of their sales force—how the sales people were trained and supervised, what advertising and promotional material was used and at what time of the year the chief efforts were made, and many other related problems.
6. What kinds of sales material will be most effective? To answer this question a separate investigation was undertaken covering:
 - (a) an analysis of the material used by other manufacturers of this type of product.
 - (b) a study based upon interviews with housewives to ascertain their views of and interests in the particular appliance and how they might be influenced most effectively toward buying it.

This investigation showed some definite and valuable information as to how the promotional material might be prepared, such as advertising and other sales matter, the details of which I shall not discuss at this point, except to state that it was based upon a first hand study of the problem in the field among consumers and distributors.

Thus we see that manufacturers are today making a detailed analysis of their possible markets.

Retail Trading Areas

RECENTLY another field of fact finding has yielded much valuable information concerning the extent of retail trading areas. After all, the market of a product is composed of smaller sections which usually consist of the local retail trading areas each of which,

for the purposes of sales promotion, constitutes a unit by itself.

Several investigations have recently been conducted with the purpose of delineating these local markets more accurately. Perhaps the most comprehensive of these studies, which has just been completed, has outlined on the basis of extensive data the extent of the shopping area around each one of the 683 trading centers. The report shows that marketing areas do not conform to political boundaries. It tells where people really buy and indicates the actual territories from which retailers draw their trade. It further indicates the purchasing power of each area and its sales possibilities in relation to the country as a whole. In short it furnishes a more accurate basis for the big problem of sales quotas in which distributors are so keenly interested.

Another example of recent fact finding in the interest of sales and marketing programs is the work carried on, in this instance, by the Research Department of the American Association of Advertising Agencies, for the purpose of determining the kinds of markets reached by the available advertising mediums. These studies, conducted during the past several years, have classified subscribers of magazines into five income groups whereby it is possible for the manufacturer to ascertain more accurately how to reach the particular market which he desires to reach. Similar studies concerning other types of mediums are under way.

Still another type of fact finding which has contributed much to the marketing side of business consists in an analysis of the various elements entering into the cost of retailing. Studies in this field, made in the past ten years by the Harvard Bureau of Business Research and other institutions, show what is the proportion of each element in the cost of carrying on a retail business. These facts have been of particular value in serving as a basis of comparison of individual retailers with the average practice in their respective fields of business.

I have attempted to give you a hasty bird's-eye view of some outstanding developments in the field of marketing in recent years. I now wish to ask, "Can similar methods be applied to the work in which you are engaged?"

The Market for Trust Service

BECAUSE of your intimate acquaintance with your own problems, you are able to see at once numerous ways in which similar methods, no doubt, might be used to advantage in your work. I am inclined to believe that one of the needs in your work is exactly the type of thing that industry has recently been doing in its field—namely, establishing a more definite conception of the market for your services.

I dare say that very few, if any, trust companies have definite knowledge of the nature and location of their possible market. Let us imagine as a matter of illustration a city of 100,000 population. What is the market for trust company work in that city? How many people are there who could and should avail themselves of the services which a trust company affords?

A careful study would probably show some surprising things. Let us assume for the moment that families

whose incomes are \$5,000 and over a year constitute the class which might benefit from the trust company service. How many such families are there in the United States? How many such families are there in a city of 100,000? In a research which we recently conducted, we found that the 26,500,000 families in the United States are divided as follows: 314,000 or 1.2% of the families have an income over \$10,000, 1,750,000 or 6.6% have an income between \$5,000 and \$10,000, 12,428,000 or 47% have an income between \$2,000 and \$5,000, 10,300,000 or 38% have an income between \$1,000 and \$2,000, and 1,750,000 or 6.6% have an income of less than \$1,000.

If our imaginary city is a typical city, it would have approximately 550 families with incomes of \$10,000 and over, and 1,550 between \$5,000 and \$10,000, or a total of 2,100 families with incomes over \$5,000. This may be the possible market for trust company service in addition to corporations and institutions.

On the same basis there would be approximately 2,000,000 families in the United States who might possibly constitute the market for trust service.

Locating Prospects

THE next step in a more accurate delineation of the market would be to determine who these people are in a community, their names and locations so that they might be reached through sales activities whether by the printed word or by personal solicitation. To do so is not an impossible task as a survey which would not be very costly could be planned and carried out to furnish this information. We have found, for example, in our research work that a satisfactory measure of family income is the rental value of the home. The ratio of rental value to income on the average is 21% and our survey shows that next to knowing the actual income itself, the rental value serves as a suitable index. A survey based on rental values of individual homes could be carried out, the names or addresses located and the actual people who might constitute the market for trust company services could be approximately ascertained.

Various industries are doing just this sort of thing. For example, a retail store made such a survey in its marketing area. One of the striking things revealed by the survey showed that the store was receiving very much less trade from one section of the city than it had supposed, and also that it had materially underestimated the buying power of another part of the city. These facts were decidedly useful in planning its sales and advertising activities.

A distributor of certain household appliances recently conducted a survey in the city of 200,000 population in which he is located. This survey, which in this instance covered every house in the city, showed the number and location of the families which did or did not have the particular appliances. The results of the investigation were highly useful in locating the market and determining the most effective methods of selling appliances.

I am, of course, not unmindful of the fact that the expenditure for promoting the sale of a service depends upon the financial return from supplying that service.

The amount that can profitably be devoted to developing the possible sales should be determined. This in itself is an important part of a market study.

The Value of Statistics

THE day is passing when forward looking business men can disregard or make light of facts relative to their problems.

There are those who believe that facts are of little or no value, who believe that their own personal impressions and opinions, formulated out of their imagination, entirely apart from facts, are the ultimate basis of action. We shall not worry about those who take seriously Mark Twain's witticism, when he said that "There are three kinds of lies, namely, lies, d— lies, and statistics."

The reason why some persons make light of statistics is because so many so-called statistics are paraded simply to show a point, and do not reveal the real situation, and I am sure we all agree that such so-called facts are worse than useless. I am sure that diligent, open-minded inquiry, conducted in the same spirit as the work which led to the discovery of the milk tester or to the invention of the various processes in industry will bring us nearer also to a solution of the puzzling questions which perplex us in the field of selling.

One of the leading engineers in this country made the statement that the most profitable investment he had ever made was the money he had put into research.

Let us not misunderstand. Facts and statistics cannot take the place of judgment and imagination in making and executing plans. Sound judgment and practical imagination are most necessary. Facts, however, are the only sure foundation upon which sound judgment and practical imagination can be based.

A man recently remarked to me that all we need is commercial imagination—that investigations in the field of marketing are purely a gesture to impress the head of a business—that it would be far better to look out of the window and let your imagination work than to make a market investigation. We shall not worry about people who take that point of view.

On the contrary, facts, instead of crippling the imagination, are a real stimulus to creative effort. The invention of the engineers' transit compass has not made the engineer less imaginative. Rather, it has made it really possible for him to plan structures on a scale never dreamed of before.

Financial institutions have until recently taken the attitude of accepting business rather than soliciting business.

In 1799, one of the banks of New York City published this announcement: "The offices of discount and deposit are open for the transaction of business for the present at 10 o'clock in the forenoon and continue open until three o'clock in the afternoon when the business of the day will be closed."

Banks and trust companies are today not only accepting business but actively soliciting it. Adequate analyses of their markets should be a help to them as it is to industry.

Financial institutions have a peculiar duty. Upon

them more than any one else rests the proper investment of the seven billions of savings each year and the reinvestment of the many billions of capital released annually for new purposes.

You are the guardians of the nation's wealth. To the extent to which you help to conserve and multiply the stored up energy of men's efforts, to that extent will you be serving society. To the extent to which you know whom you can and whom you should serve and aim to serve then, to that extent will you perform your full duty to your fellow men.

CHAIRMAN MORTON: Gentlemen, we have had this picture from the inside, we have had it from the outside, and we have had a very interesting talk from Dr. Starch upon industrial methods.

Our next speaker is going to make, as I understand it, a critical analysis of the financial advertising which is exhibited here in the lobby. It gives me a great deal of pleasure to introduce to you Dr. George B. Hotchkiss, Professor of Marketing and Advertising, New York University.

The Advertising Appeal of Current Trust Company and Bank Advertising

By GEORGE B. HOTCHKISS

Professor of Marketing and Advertising, New York University

THE task of criticism is always a great joy to the critic, if not to those criticized. Somebody has inquired why we do not have more criticism of current advertising, as we have criticism of all other forms of literature, books, plays and so forth. So far as I know, there is not a single professional critic of advertising who can make his living at that job. The answer is: First, that there is plenty of criticism before the advertisement ever appears; and secondly, that criticism of advertising is likely to be not only thankless but pointless.

A critic cannot competently criticize advertising unless he knows the advertiser's purpose, unless he knows the advertiser's audience, unless he knows all the conditions behind the campaign. And yet, in spite of that, I have the temerity to stand up here, after surveying the exhibits out in the hall, and tell you what I think is good about them and what I think is bad. Naturally, I do it with a great many reservations. I don't know, in all cases, what the purpose was, nor who the audience was. I can only tell you how the advertisements appeal to me and why.

Financial advertising is one of the most difficult kinds; there is no question about that. In the past, it has been much hampered by traditions; some of which have been wise traditions, but not all. There has been a feeling that advertising in itself was a little undignified, and that if you advertised at all you must do it with dignity. With some restrictions I should say that is a good tradition to follow, but advertising is never undignified when you have a message to deliver to the public that can be delivered effectively in no other way.

That is true, surely, with the banks and trust companies. They have something to tell the public that the public would profit by knowing. Then there are only two questions that we need to answer: The first is, "Is the message we have to deliver worth delivering?" and secondly, "Is it delivered effectively?"

Competitive vs. Educational Advertising

THE messages of trust companies, and to some extent of banks, may be classified in two categories. First, are those which try to show the public why they should choose some particular bank or financial institution. These are competitive advertisements. Second, are those that try to educate the public regarding the use of trust-company-bank service in general. Those are commonly called educational advertisements. Of course all advertising is in some degree educational; but these are more educational than those which are merely competitive.

I think there is no question that the higher form of advertising is the educational, that which sells the public on the service of trust companies or banks in general. And you have only to look at the graphs showing the growth of trust companies to see how much has been done to widen the public use of trust company service. What has been done is simply an indication of future possibilities. There is room for further growth, unquestionably.

The question might arise, why can't trust companies all together do that job by cooperation? I suppose they can, but there is a good reason why the individual should do it. He need not fear that he will fail to reap most of the benefit from it. Usually it will help to indicate his individual ability. It has become a settled conviction in my mind that the best way to indicate capacity for giving service is by giving it. If trust company advertising gives real service of information about wills, estates or other matters, it is a guarantee that the institution publishing it is a service institution to which the public can turn safely, knowing that the company which gives service without being paid for it will certainly do so when paid for it. So it seems to me that no trust companies should need to think it unsound to give general educational advertising. It will help all

trust companies, but the individual giving it will reap most of the benefit.

But let us go back to the first kind, the competitive advertising that says, "You should deal with my institution, not some other." The difficulty of advertising of that sort is that the reasons why the public should deal with "my institution" rather than with some other, are generally reasons of character, and a man can't talk about his character very convincingly, nor can a bank or trust company.

Advertising by Implication

A TRUST company that says in words, "We are big and old and strong," is not conveying its message to the public. A message about character can't be put into words; it can only be implied. Now, of course, a trust company or a bank does imply the qualities of its character in many ways—by the kind of building it occupies, the kind of paper and letterheads it uses, and many other factors of that sort.

It is possible, likewise, in advertising to imply strength and solidity and all the other qualities of character which you think you have, by graphic means; for example, by a picture of the bank, as is so effectively featured in the advertisements of the Bankers Trust Company of New York and others. A better way, it seems to me, is by the typography and general appearance of the advertising.

The advertising of another institution—the Chase National Bank of New York—has, by its typography, its dignity and beauty, and its cleanness of appearance, told you a great deal about the institution, whether you read a word of the advertisements or not. All that the words can do is to exercise restraint; they say very little. So, although I don't consider that the highest type of bank and financial advertising, I consider that particular advertising a model of its kind, in saying a great deal about its character by implication.

Dangers in Sensationalism

THERE is a negative side to that picture. No matter what message is expressed in words, bank and trust company advertising should have nothing that would negative those qualities of character that we think desirable. It should have nothing that says sensationalism, cheapness or flimsiness. There, it seems to me, is a pitfall that some trust companies are dangerously close to, if they have not actually fallen in. There are some trust companies and banks that have made too lavish use of bright colors, sensational pictures and other things, for the sake of getting attention, with the result that they may have lost something of the impression of character which the institution should have. I am very much afraid the reader of these advertisements consciously or unconsciously may comment, "You speak so loud that I can't hear what you say." So, on the negative side, regardless of the message in words, it is well to avoid undue sensationalism in methods of getting attention.

Moreover, I do not believe that such methods accomplish their real purpose. The purpose is not merely to

get attention to the advertisement, but to draw attention to the message it contains.

If any extensive message is delivered by the advertisement, it must be a message in words, and the function of the display is largely to draw attention to that. What we want in an advertisement is not merely eye-attention, but mind-attention, reading-attention.

Securing a Reading

ADVERTISEMENTS that use color, pictorial displays and mechanical methods of attracting the eye, have very frequently stopped short of getting *reading-attention*. So the better plan, it seems to me—if you must use sensationalism—is to be sensational in your headlines. Have some title for your advertisement or booklet that is picturesque and curiosity-provoking; but let the display be reasonable, conservative and dignified. There are some excellent examples of that sort of advertising, advertising that is well-dressed and has nothing of the actor in its appearance, but has a strong incentive to reading in the headlines.

Such methods are particularly suitable where the message in words is long, and of educational or pioneering character, giving the public some reason for consulting and using the trust company, regarding wills, estates and so forth. The subject is one in which they generally have no prior interest; they haven't been thinking about it. It is your task to get them to think about it, and the only way to do that is to put your subject among the things in which they are already interested. They are interested in their families, they are interested in their financial problems; they are not interested in your company as a trust company. And so the point of contact should be made with some problem, some predicament in which a man may easily find himself if he fails to take advantage of the service of a trust company.

The "Sob" Appeal

A GOOD many companies have attempted, also, to humanize their appeal. I was particularly interested in comparing three exhibits of trust advertising, all of which attempt the same task, that of humanizing the appeal. There were a number of others—but these struck me particularly because they were of the Union Trust Company of Detroit, the Union Trust Company of Cleveland, and the Union Trust Company of Chicago. I understand there is no connection between the companies, but whether by coincidence or by intention, they all have what might be called, without disrespect, a "sob" appeal, full of pathos and human interest—the sort of thing that makes newspapers large instead of small. They all have their merits.

The Detroit Company has as its headlines the large generalities, "Home," "Faith," "Love," "Friends." Those are, I think, the proper themes for such advertising, but not in those words. We are not interested in love in the abstract, but only in the concrete. The same is true of home and friends. It is far better, it seems to me, if you are going to use that method, to make the appeal concrete. Take for example the Cleveland advertising, showing the daughter, "Today she is

yours; tomorrow she is to be married." That is specific, and is far more likely to get people's attention than the general theme, "Parental Love." Another headline was, "Thus Comfort Came to This Little Old Lady," and again we are moved to read, because of the specific instance that illustrates the theme which is expressed in the abstract headline of the other.

The Chicago Company seems to be a little more restrained than either of those just mentioned, and I think, on the whole, to good advantage. Without denying the strong heart-grip of the other companies' advertisements, I favor just a little soft-pedalling on this type of appeal. And the Chicago campaign seems to me an admirable model of the human type. One of the headlines, "He Insured His Life in Favor of Granny and Tommy," is another concrete situation that moves us to read the story. Both the Cleveland and the Chicago companies make good use of the story method, and so does the Detroit Company, for that matter, in another series of its advertisements dealing with investments.

The Story Method

IT is a well-known and inescapable fact that advertising has to compete with the reading matter of the publication as well as with the other advertisements. Probably the most interesting form of literature, the one that is most eagerly and widely consumed by people, is the narrative, and especially the narrative dealing with human situations. Consequently, advertising copy in narrative form has a tremendous advantage in meeting the competition that it has to meet. That competition today is so intense that an advertiser's problem in getting his message read at all is far more difficult than it ever was before.

I am glad to see among the exhibits many examples of copy in story form, and nearly all of it well done. I find a series of "Ten Stories From Real Life," used by a number of trust companies, all very graphic and compelling.

Use of Humor

ONE or two companies—but only one or two—make use of humor. That is a somewhat dangerous method in financial advertising. However, it deserves consideration because of the intense competition for reading. Nowadays an advertiser has to concern himself not merely with buying motives, but with reading motives; not merely with the information that will sell his service, but with the information that will get read. Occasionally an advertiser will run the risk of using humor, because he feels more confident that his material will be read and hopes that he can dodge any ill effects.

Perhaps the best campaign using humor which I have noticed was that of the Bronxville Trust Company. Some of their advertisements were not only amusing, but right to the point. One of them, particularly, headed, "Hush! dearie, don't be noisy in the bank," is combating the old idea that a bank was a sort of tomb where people had to speak only in whispers. Some others, also, were interesting reading—and I am sure must be doing a very valuable work for that company.

Two Admirable Campaigns

HOWEVER, the prime purpose, after all, in advertising, is to deliver the information, to get the story across—the solid, informative story of the trust company. In this respect the Guaranty Trust Company and the Equitable Trust Company of New York have had admirable campaigns. The Guaranty Trust Company's campaign struck me as being good in its mixture of the human element and the informative element. Speaking as an observer, without knowing what is behind it, I should criticize the campaign as lacking a dominating theme running through it. Probably there was a reason for that. The Equitable campaign, on the other hand, seems to have a dominating idea. Moreover, each individual advertisement has a judicious mixture of informative and human material. There is a brief paragraph of story material in large type with a picture for those who have only a casual interest, and a small-type column at the side for those who want more solid information.

There is another fine thing about the Equitable series that possibly may not have caught your attention particularly. Quite a number of advertisements have headings like these: "A Young Married Man's Question," or "A Young Married Woman's Question," or "A Businessman's Question," and several others. Those illustrate the *selective* type of headline. It is not appreciated as much as it should be that every advertisement in a general publication has the task of selecting its own audience. When the young married man sees this particular advertisement as he is rushing through the paper, it may strike him, "Yes, I am a young married man, what is this question?" Of course it doesn't drive other people away, necessarily, but the man who fills that particular position has his attention enlisted. He knows that the message is directed at *him*.

It is often better in a series of advertisements to make each one drive at an individual class than to try to make every advertisement reach everybody. Particularly is this true in large cities, where the population has so many factors that the universal appeal is almost impossible.

Another one of the Equitable series that impressed me as being one of the finest trust company advertisements I ever saw, was the one with the clock, and the heading, "One Hour's Time to Preserve the Work of a Lifetime." That, I think, is a magnificent piece of work in its handling and its general interest, having as nearly a universal appeal as any that I recall seeing.

Value of Simplicity

IF time permitted, I would comment upon some of the other campaigns in detail, also. I can only say that there are one or two that struck me as open to criticism. One Philadelphia company has made a specialty, apparently, of wide borders of varying kinds. They got the printer to make as many different kinds of fancy borders as he could for their advertising. That is very nice for the printer, but it doesn't seem to me to have any great effectiveness for the bank to show what can be done with borders or type.

Moreover, as I read the copy, which was not particularly alluring, I came across sentences like these: "Persons preparing for long sojourns in this country or abroad may name this company custodian of stocks and bonds." That is the beginning of one advertisement. The language is not simple enough for the average audience of a newspaper, and the thought is not a very strong opening thought, though it might be very useful at the close.

I saw another advertisement that was very beautifully done and effective in a great many ways. The headline, "The Combined Judgment of Eight Directors," was accompanied by a picture of a director's table with the substantial-looking bankers around it, apparently discussing what was to be done with the estate of anybody who had entrusted this company with his business. Now, I don't know, but I don't think that is exactly the way it is done. And it seems to me that the trust companies and financial institutions, more than any other group of people, should guard against anything which would tend to mislead the public or give them a wrong impression by pictures or by words. Misrepresentation is bad anywhere, with any commodity, but it could not be condoned in the advertising of a financial institution.

In closing, let me say that I might very profitably have called your attention to the opening statement in the January Publicity Bulletin of the Trust Company Division, A. B. A., entitled "A Trust Advertisement Explains Some of Its Duties," and I might have said, "There is the criterion for criticizing all these advertisements; you take that and go out and measure every advertisement against that yardstick and you won't be far wrong in judging its merits." But if I had done that I shouldn't have had the chance to make this talk.

CHAIRMAN MORTON: The meeting is now open for discussion and questions. Is there anyone here who has some question he would like to ask of any one of the speakers? We should be glad to have you do so.

MR. MERSHON: I would like to ask Professor Hotchkiss what he thinks of the use of the "fear" elements in inducing people to write wills and create trusts.

PROFESSOR HOTCHKISS: I don't know how to answer that in very general terms. The fear appeal is, to me, the one that has the greatest possibilities of danger, and I would certainly dilute it in a campaign with many more of the constructive examples. On the other hand, it is the strongest instinct, perhaps, that we know of, and with some people there may be no other that will register effectively.

MR. MERSHON: What means would you use to overcome procrastination, which is the hardest thing that the trust man has to combat, in getting a person to create a will or a trust and put his house in order?

PROFESSOR HOTCHKISS: Well, the fear appeal comes in very well there, and also that clock element that I mentioned, in the Equitable advertisement.

MR. MERSHON: We can't steal that, though. (Laughter.)

PROFESSOR HOTCHKISS: I think the time element can be stressed in many other ways. Some of the advertisements in the series prepared by your Committee on Publicity have, I think, done that effectively, though indi-

rectly, in telling the expedients that some men were compelled to use—for example, cutting a will on a plank with a jack-knife—in order to make up for their past procrastination.

A DELEGATE: I would like to ask what Professor Hotchkiss thinks concerning the stimulation of curiosity in an advertisement, to get the prospect to come in and ask questions rather than to try to make the sale direct through the advertisement.

PROFESSOR HOTCHKISS: Of course, that was illustrated very well, also, in the advertisement, "A Young Married Man's Question." I noticed another series which were very good in that respect, though it is probably a little out of date now. At the time when the "Ask me another question" fad was at its height, advertisements asking, "How many of these can you answer?" were very effective.

Of course, in other fields of advertising, the curiosity element has been effectively used by, "What is wrong with this picture?" and other devices of that kind. Whether that same thing could be adapted to trust company uses or not is something I haven't stopped to think out. I believe that curiosity is one of the best appeals that can be used. It is not necessarily one of the strongest, but where you have information to give, it is very wise to give people an incentive for getting it.

MR. MERSHON: Your criticism of committee meetings leads me to believe that you do not know how carefully those things are gone into, and on Thursday afternoon, we expect to have a meeting of a Trust Investment Committee here. It might do some good if you were to come around to see just how it is done. (Applause.)

PROFESSOR HOTCHKISS: Is it true that if I trust my estate to the trust company, the Board of Directors will sit around to see to its disposition? (Laughter and applause.)

MR. MERSHON: That question has two meanings, if you take it another way, but that is true. Take the Investment Committee, it is coming into vogue more and more, and my reason for speaking now is that I assume you are not a banker or trust man but an advertising man, and I assume all advertising men ought to know that.

PROFESSOR HOTCHKISS: I apologize for my ignorance.

CHAIRMAN MORTON: Are there any other questions? If not, this morning's session will stand adjourned.

(Adjournment)

SECOND SESSION

Tuesday Afternoon, February 14, 1928

Mr. John C. Mechem, Member, Executive Committee, Trust Company Division, American Bankers Association, and Vice-President, First Trust and Savings Bank, Chicago, Ill., presiding.

CHAIRMAN MECHEM: Before proceeding with our program I want to say that to us who have attended so many of these conferences it is very stimulating to see so many new faces here, and particularly stimulating to see so many younger men present today. I want to say that we welcome you, that we hope you will feel at home, and feeling at home, we hope you will feel free to ask any questions or take part in the discussion.

One of the most interesting developments in the great growth of the trust company business has been the large number of trust departments that have been established in smaller and country banks. The establishment of

a trust department of that kind is a very important thing for the institution which establishes it; it is a very important thing for the community which that institution serves; and it is a very important thing for all other trust companies, because, after all, it is essential to the well-being of all of us that every trust department that is established shall conduct itself in such a manner and be guided by such ideals that it reflects credit upon the entire profession.

Mr. Charles H. Plenty, Vice-President of the Hackensack Trust Company, of Hackensack, N. J., is going to talk to us about "The Development of a Trust Department of a Country Bank." Mr. Plenty.

The Development of a Trust Department of a Country Bank

By CHARLES H. PLENTY

Vice-President, The Hackensack Trust Company, Hackensack, New Jersey

THE development of a trust department of a country bank may take twenty years. To cover the subject in twenty minutes is obviously an impossibility. The highlights, however, can be touched and while what I say may be trite to many of you there may be something worth while for a few.

The same rule which the successful farmer applies must be used by the trust man in a country bank if he would make of his trust department something besides a bank departmental title. This rule is work to be followed by still more work. The day must not be divided into so many hours for work and play and sleep, but he must be ready at all times, like a country doctor, to go, to do, to help, to give counsel, to serve. This is not as difficult as it seems. There will be many calls for evening consultations, for talks before local organizations, for advice after hours from those at interest in estates under settlement, but to a man whose heart is in his work this will all be play.

Possibly the three divisions of trust development activity which have received the widest recognition can be headed: 1st, advertising, 2nd, personal solicitation, 3rd, contact within the bank, which is a combination of the first two and also brings into the picture our old friend, "the pleased customer."

Tying Up With City Advertising

UNDER advertising we easily fall into two classes. The newspaper and direct by mail. This subject alone is one open to great controversy. The mistake shoals are so frequent and so poorly marked that it is difficult for us to keep our craft in the right channel. We are daily offered syndicated material which is guaranteed to stir up interest at least, but as for results the story is always left to be told.

Of the power of the press there can be no doubt. We may be sure the vast sums which are spent by the large trust companies for eye-compelling space in the great dailies of our major cities are not wasted. And of one more thing may we be sure. If our bank is located within the influence of the large city daily carrying such advertising we, too, will profit by the message given.

Trust men in the smaller suburban communities have been slow to recognize their opportunity and follow up in their local daily the message carried by the large trust companies in the city papers. The commuter, coming home at night, reads the news, sports, features and then looks over the ads. I have seen many a man on the evening train reading the Equitable Trust or Bankers Trust stories, and so have you. Why not be ready for that man when he reaches home and after his dinner sits down to his local daily? Select your space carefully and your material still more carefully, and then, like the hymn, "tell him again the story, the old, old, story," of the duty he owes to those dependent on him. Try to tie up with the theme of the city trust company as closely as possible.

If you have a flair for writing, work up your own copy. If you have a good amateur copy man in your organization give him the job. If neither is possible, arrange with some one of the many advertising writers who are willing to supply copy to fit your particular community. Their charges are modest. I had one once for \$50.00 a month, one ad a week. Whatever you do, however, be sure your copy is sincere, direct and leaves no doubt in the mind of the reader that you know what you are talking about.

It is generally admitted by the best advertising writers and critics that the picture of misery is a poor one to paint. True, a man must die and some must be left alone, but most men, while willing to admit death, are

resentful if hardship to their family is implied. We are not going to overcome this entirely but it is well to have it constantly in mind in the preparation of our copy.

Cuts to attract attention play some part in newspaper advertising, but I have had as much, if not more inquiry, from an ad without a cut. After all, it's the message that counts, else the Tribune and Times would illustrate their editorials.

Direct by Mail Advertising

A LARGE field is open to us in the direct by mail appeal. What shall it be,—a letter, an illustrated folder, a booklet? What subject,—estate administration, voluntary trust or insurance trust? Who will furnish the material, Purse, Prentice-Hall, Staples or will we have our own copy man write it? May we with safety use syndicated booklets? Does the end justify the expense? These and many more questions can be asked by the trust man and perhaps he will find a satisfactory answer. I know this, however, that each class of prospect demands special treatment. When you spend days in selecting your material you must also spend weeks in selecting your mailing list. The same mailing list you use for estate management is not 100% good for a life insurance trust. Your material must be good but your mailing list must be better. A good plan to follow is to take your safe deposit register, go over it carefully with your safe deposit custodian, get his angle on each name you find, select those you consider most receptive to the particular phase of trust activity you have in mind, send this list to your individual and savings bookkeepers to make note of balances and remarks as to their knowledge of the prospect, consult with your securities department man and after this has been done use your own judgment, go through once more, and for a last time weed out those you think will not be receptive.

Your list will now be prepared to the best of your ability with quality rather than quantity in mind, so when your material goes out and your prospect is turned into a client his name should come out and a new one go in from a secondary list which you have had prepared.

Professional men and the fortunate few with money enough to travel are the best prospects for a voluntary trust. Young men just married or with little families, for a life insurance trust, and a combination of these with the small merchant or successful middle-aged person for estate management.

Personal Solicitation

IN discussing the personal solicitation part of trust development, I can frankly say I am not at home with my subject. I have had so many things happen, both in favor of and opposed to this method, that I have been led to the conclusion there can be no set rule which will always work and which can be made applicable to any community. Of course, it is being done, and we all do it, one way or another, but I really wonder if it can be counted on to produce results and not offend.

I know of many people who have been approached by other organizations and have been definitely turned away from them by the question of, "Have you made your will?" and "Who is your Executor?"

In our direct by mail booklets we should have a return card, asking for a master booklet, or a will guide, or for an appointment to consider the subject broached. These cards, when returned, and they are returned, offer an opening to the trained trust man wherein his appeal can be made without offense. His call will be a service call. What he has to say will receive close attention. And right here is the place for him to watch his step. The interest of the prospect has been aroused. He may be ready to talk about his will but not ready to consider a corporate executor. His wife may be asked to sit in on the conference. She may feel that she would make as good an executor as a corporation and without fees. This idea must be changed. The advantages of the corporation should be stressed but the frailties of the individual must be ignored except as to lease of life.

Permanence of trusteeship where children are involved is our one strong selling point against which all of the waves of opposition to the corporate fiduciary break.

I have closed many an appointment by never bringing in the name of my company and talking solely of the benefits of corporate management. It is not necessary to tell how good your own company is. If the prospect lacked faith he would not have approached you in the first place. When you convince him of the benefits to accrue from corporate management he will be ready to name your corporation.

If you really want to develop your trust department let your advertising say that evening appointments can be arranged. Many men like to talk of these subjects on summer evenings, with their wives present, and they are reluctant to ask a trust man to come for fear of expense. Break down this reluctance. Let them know you are willing. Keep telling them. That's where your story in the daily paper (or weekly) will help.

Contacts Within the Bank

THE contact within the bank is a most important one. Many a profitable trust has been closed or a will arranged for by such contacts in our institution.

Make it a practice to have a very few, not over three, classes of your printed trust matter on an attractive table, well located in your lobby and see that they are always tidy and fresh looking. Nothing does so much damage as to put out a pile of booklets and permit them to get mussy or dust covered. If you have a floor man you can at all times keep four or five of each class on the table. They are more readily taken when it looks as if many had previously gone. When a person picks up one of your booklets and is looking through it the floor man can, without offense, ask if the subject is of interest and with an affirmative answer should suggest a call at the desk of one of the trust men. It works well with us. It may with you.

On the desk of each officer we have a small package of charts which show the distribution of intestate's prop-

erty. These are constantly picked up, glanced at, inquired about, and usually lead to more business.

When mortgage loans are closed the law of distribution is always given for the guidance of the mortgagor and frequently results in new wills. Here again the advantages of the corporate fiduciary are stressed, especially as such fiduciary will be the mortgagee.

Single sheet folders, blotters, or card size messages enclosed with each monthly statement are often productive of contacts within the bank leading to profitable business—such a folder, sent with a customer's checks to California, was picked up by a person who lived in New Jersey and on his return east resulted in the creation of a good sized voluntary trust, and two wills, naming our company. We can never tell in what port these little messages will land.

The acceptance by the trust man of invitations to speak to men's clubs, civic clubs, women's clubs, schools, etc., on the subject of wills, trusts and the corporate fiduciary will result in wide publicity for your bank. Be careful to confine your talk to the subject. Avoid mention of your own bank. Tell the audience how the corporate fiduciary can serve them and suggest they talk it over with their own bank. Such a course will offend no one. Your nearest trust competitor will reciprocate and you will get your own customers who are present anyway. We country trust men need not be competitors. If we each develop the business lying dormant among the customers of our own bank, our hands will be full.

A New Corporate Fiduciaries Association

ON my election as President of the Bergen County Bankers Association, I broached my dream of a Bergen County Corporate Fiduciaries Association and we perfected our organization last September. Twenty-five banks in the county having trust powers make up its membership. They made me its first president. We hope to do much for the development of the corporate fiduciary in our corner of the state. The older men with experience are always available to advise or assist the younger. The larger institution tries to be helpful to the smaller. We are all working to a definite end. We are not competitors but we are all out for our own business.

These organizations, where they function, can greatly aid in stimulating the growth of the corporate fiduciary idea in any community. Get together, organize! Let's have a corporate fiduciaries association every place we have a bankers association. It will help to break down petty jealousies and strengthen the whole structure.

After all is said, I really believe the sincere trust man should keep the words of Elbert Hubbard in mind, wherein he says, "Keep your mind firmly fixed on the great and glorious thing you would like to do and then without violence of direction you will move straight to the goal."

CHAIRMAN MECHEM: That was a very interesting paper, Mr. Plenty, I thank you.

I would be glad to throw the matter open for discussion. I am sure Mr. Plenty would be glad to answer any questions. It is a subject which should be of great interest to many of you.

Need for Assistance

MR. LEONARD S. HOLE (Trust Officer, George D. Harter Bank, Canton, Ohio): This talk has been of interest to me because I have had the problem of developing the trust department of our bank from its infancy.

There is one part of the subject, though, that seems to have been omitted; that is, the preliminary steps to be taken in the establishment of a trust department. I think that all of us trust men realize that few officials of banks, few directors of banks, have any definite knowledge of what a trust department is or how it should be established. This is very true of banks that have never had a trust department.

I believe there is a field open for the Trust Company Division of the American Bankers Association, in assisting these banks which desire to open trust departments. We don't want more trust departments; we want better trust departments. The five-and-ten-cent variety of trust departments, which I have noticed are being established in various parts of the country, ultimately are going to do the trust business a great amount of harm. The thing that we must do is to see that every trust department that is established is going to be a good trust department.

There have been some mistakes made in the establishment of trust departments. This division of the American Bankers Association, I believe, can give an immense amount of help so that the establishment of the trust department will be done most effectively. I refer particularly to the small bank. This is my suggestion and my recommendation: That the Executive Committee of the Trust Company Division of the American Bankers Association establish a bureau of information, from which banks which are interested in establishing a trust department may be able to obtain all the information necessary to properly establish that department.

There is more to it in starting out than just to advertise the department. The first thing to do is to get competent trust officers, which is omitted many times. Oftentimes the work of conducting a trust department is turned over to an assistant cashier who knows very little about trust department work, and many mistakes are made.

We all know that when a trust department is once established it must be permanent. That is what we are always stressing—permanency. If we can't have that we might as well stop doing trust work. So I say, that great good would result if a bureau of information were established by the American Bankers Association, which could offer to all banks the right information on how to establish trust departments. Perhaps it could be done by offering to send trained trust officials to smaller towns to survey the situation and then to make recommendations. (Applause.)

CHAIRMAN MECHEM: Your suggestion is very pertinent, Mr. Hole.

The great number of trust departments which are being established, have thrown a great responsibility and a great burden upon the Trust Company Division of the American Bankers Association, and one of the great functions of the Trust Company Division, and one that

has been carried on very ably by Mr. Mershon, has been the aiding of new trust companies in the proper methods. The appropriation which the Trust Company Division has from the American Bankers Association is limited, and, therefore, the staff which the Trust Company Division has at its command for that kind of work is also limited.

I feel sure, however, that the Trust Company Division has done all that it could within its own limitations in that work, and I feel sure that the continuance of that work is one of the things that the present officers of the Trust Company Division can see ahead of them. That is right, Mr. McLucas, isn't it?

MR. MCLUCAS: Yes.

MR. PLENTY: Mr. Chairman, in my talk I mentioned the fact that we had organized a Corporate Fiduciary Association in Bergen County with twenty-five members. However, it isn't necessary that such an association should comprise that many members. It could just as well be built up with three members. If in any particular section of the country or community, where there is one bank which is outstanding, from the standpoint of trust company activity, such a bank could take upon itself the work of organizing a corporate fiduciary association, and through its willingness to extend help to the banks which contemplate opening trust departments, they could be properly guided in the same manner as is being done in Bergen County. We must lose sight of the competition end.

CHAIRMAN MECHEM: That is very true, Mr. Plenty. Mr. Hole, I think you find, do you not, that the longer-established trust companies in the larger cities are more than glad to be of any possible assistance to a bank which is desirous of opening a trust department?

MR. HOLE: Yes, they are very desirous to help, and they do help, but I have found that there are many small banks which are establishing trust departments without knowing the reason why they establish them. In a good many cases they look upon it in the same way as

they would look upon the opening-up of a Christmas Savings Club.

We all know that fiduciary business and the trust idea is a big idea, and these banks, in many cases, do not go to the parties they should go to. What I am suggesting is that the Trust Company Division write to all banks, saying to them: "If you are considering the establishing of a trust department, or if you ever consider establishing a trust department, communicate with the Trust Company Division of the American Bankers Association and they will give you every help to see that your department is established properly."

CHAIRMAN MECHEM: Mr. Mershon says, Mr. Hole, that many banks that contemplate starting a trust department write to the Trust Company Division, and, as I have said before, they are doing all they can to help within their budget and personnel limitations. If there is no further discussion we will pass to our next subject.

The custodian department is fast coming to be, if it is not already, a very important department in a trust company. We find, and I am sure all of you do, that our custodian departments are growing very, very rapidly. We find that those departments are of great service to our customers. We find that our customers are easily sold on the benefit of such a service, and are easily brought into the bank, because this requires no very confidential relationship at the start.

We find that our custodian department is a fine developer of new business, but unfortunately, we find, that it is a very difficult thing, in view of the more or less standard fees that have been established, to conduct a custodian department at a profit. And, therefore, any light that can be thrown upon that subject will be of great interest to all of us.

Our next speaker is Mr. H. D. Sammis, Trust Officer, The Farmers' Loan and Trust Company, New York, who will talk to us on the topic, "Conducting a Custodian Department." Mr. Sammis.

Conducting a Custodian Department

By H. D. SAMMIS

Trust Officer, The Farmers' Loan and Trust Company, New York, N. Y.

THE phenomenal growth of the Trust business, not the least of which has been the increased demand for Custodian Services, has brought with it many operating problems. All executives engaged in Trust work have been faced with the problems of producing high grade work in large volume, at a reasonable cost, and our Company has been no exception.

With the hope that our experience may be of some value to other executives I will tell you something of the way in which we have attempted to solve our problems and, to better explain the telling, will show you some pictures, not only of some of the forms we use, but of the different departments in actual operation.

It might not be amiss frankly to consider just what

is Custodian business, and what are the main duties of a Custodian and the problems he has to solve. The fundamental reason for this service is the need for highly expert handling of securities. He, therefore, has to provide for the receiving and holding of securities, the delivery of them, caring for the interest whenever due, the watching of all details connected with them, the prompt advising of the customer, the carrying out of his instructions regarding the purchase and sale, and giving of advice whenever requested as to the facts surrounding not only the securities held, but any additional securities a customer may have in mind, and underlying all the above is the necessity of creating such an acquaintanceship with his customer that the personal equa-

tion may become a factor in his business relations with him.

In order to please his customer the Custodian Official has four things that must be very closely observed:

1. The correct handling of all the details connected with the account.
2. Prompt attention when a customer calls at the office.
3. The prompt answering of all his telephone calls.
4. The prompt and correct answering of all his mail.

In order that you may more readily follow what I have to say later on, I will give you first of all a general picture of our organization.

Custodian business is a division of the Trust Department, the other activities being Personal Trusts and Administration of Estates. We have found it advantageous to segregate the operating unit from the management of accounts and estates and custodianships. So that we have three main divisions, namely, the Custodian Administration, the Trust and Estate Administration and the Operating Division.

The functions of the Administration divisions are in general to administer accounts rather than conduct operations. The operation division is, of course, divided into sub-departments to take care of various functions; for instance, there is the Security Cage that receives and delivers all securities. The Vaults where the securities are lodged. The Coupon Collection Department which collects all bonds, coupons and dividends. The Remittance Department which makes remittances of trust and custodian income. The Bookkeeping Department where are recorded all cash transactions and the Security Recording Department where the security ledgers are kept and work incidental thereto is done. As far, therefore, as operations are concerned they apply equally to our Trust as well as our Custodian activities.

Origin of the System

BEFORE proceeding further, I should like very much to give you a brief account of how our present system was arrived at.

In 1924 the enormous amount of new business which was coming in, together with the large volume of business already on our books, made it very apparent that some radical change in our system would soon be necessary. With this purpose in view the heads of the various sub-departments within the Trust Department, some nine of us in all, met one night at dinner, and frankly discussed the situation. We met at night because during the day all of us were too busy. At that dinner we decided to cooperate under an Organization. A Chairman and a Secretary were elected. You will see that we had at this round table conference men who were keenly alive to the responsibilities and troubles of their own particular departments. To this group there was presented the larger and wider problem of evolving some system more effectively to take care of the increasing volume of work in all departments. The problem was then dissected. At each meeting some particular phase of the problem would be discussed. After this general discussion the Chairman would then appoint a Committee of three or four men, usually those

engaged on the work affected by the matter under discussion, and ask them to bring in a detailed report of the solution of the problem, showing how each operation was to be performed, together with the machinery and forms to be used.

From these reports has gradually been evolved the system that will be shown to you today. The great advantage of creating a system in this manner is that the system itself is built and created by the men actively in charge of the different divisions of labor involved—it is their creation and there is no necessity of attempting

Date _____

The Farmers' Loan and Trust Company,
22 William Street,
New York, N. Y.

Gentlemen:

With reference to the securities which you are now holding or may hold at any time for my account, I desire to give you the following instructions:

All interest and dividends on such securities are to be collected by you and disposed of as follows—

- ☐ Credited to my checking account with you under advice to me.
- ☐ Remitted to me (periodically)
- ☐ Remitted by check to the order of _____ and mailed to _____
- ☐ Held subject to my instructions

*NOTE:

I hereby authorize and empower you, in my behalf and in my name, to sign any certificates of ownership or other certificates which are or may hereafter be required by any regulations of the Internal Revenue Department or other authority of the United States, relating to Income Tax, so far as the same are required in connection with any bonds and the collection of coupons thereon or any interest upon mortgages or deeds of trust or other similar obligations of corporations, joint stock companies or associations and insurance companies which are now or may hereafter be in your possession belonging to me, or in connection with the collection of coupons, checks or bills of exchange for or in payment of any dividends upon the stock or interest upon the obligations of foreign corporations, associations and insurance companies engaged in business in foreign countries, claiming no exemptions in my behalf.

To enable you to execute these certificates properly, I hereby declare as follows:

I am a citizen of _____

My legal residence is (State or Country) _____

I am ☐ single, without dependents. ☐ Single and supporting a relative. ☐ Married and living with husband or wife.

*NOTE:

I hereby agree to notify you promptly in writing in case I should change my citizenship, legal residence or status as stated above.

You are to charge for your services a fee of 1/10 of 1% per annum on the par value of securities held (minimum fee, \$50 per annum) payable semi-annually, and I authorize you to charge my account with the amount of such fee, with advice to me.

For preparing annual statements of income classified for income tax purposes, including profits and losses on security transactions, you are to make a charge based on the amount of actual work involved, the minimum charge to be \$10.00.

I ☐ desire ☐ do not desire this service.

*NOTE:

It is understood that in the case of non-resident alien clients this charge shall be made to cover the expense of furnishing annual income returns required by law.

Proceeds of sales of securities and other cash principal items are to be credited to my ☐ Custodian Principal Account ☐ Checking Account pending reinvestment.

Proxies are to be ☐ forwarded ☐ destroyed.

Securities herein referred to are to be held by you in ☐ negotiable form ☐ name of your nominee ☐ non-negotiable form.

*NOTE:
Address _____

Yours very truly,

*Note:—Please indicate by checking relative squares and striking out superfluous parts.

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to sell them some idea that may be foreign to their particular experience.

I might also add that these dinners are still being held, for in business the problem is never solved. The only thing is that we have found it so successful that we have enlarged its scope to include other functions of the bank, so that there are now about 30 members of this general Round Table conference.

I respectfully commend this method to help you solve some of your troubles.

And now for some details!

First of all, a word as to the organization of the Custodian Administration division. We have some 3,000 accounts. This division is under the care of a Trust

Officer assisted by two Assistant Trust Officers. Each of the Assistant Trust Officers has an Assistant, who although having no title is perfectly competent to talk with customers, write letters, and is thoroughly familiar with all the methods of the institution. The two Assistant Trust Officers divide the accounts between them, and supporting these two Officers and their Assistants are five men, among whom the accounts are divided, each man supervising a group of accounts falling within certain letters of the alphabet.

When a Custodian Account is opened with us, the

SPECIAL INSTRUCTIONS

(The form below is to be signed only when it is desired to delegate to a third party authority over this account.)

I hereby authorize and request you to follow any and all written instructions, given you

in respect to the sale or exchange of any or all of the securities which you, as Custodian or otherwise, now or in the future may hold for my account, the transfer, delivery or other disposition of said securities, the investment of any cash which you, as custodian or otherwise, may at any time hold for my account, and the purchase or acquisition by exchange or otherwise, of securities in my behalf, hereby granting unto my said attorney full power and authority in the premises, ratifying and confirming all that he shall do or cause to be done by virtue hereof.

Very truly yours

Page 3 instruction sheet for handling of
custodian accounts

customer comes in contact with the officer in charge of his particular account. He is then introduced to the men down the line who take care of the details connected with the handling of his affairs. The object of this is to always have some individual the customer can ask for, and so it is not ever necessary to keep anyone waiting because an officer or clerk is away.

The mail involving so many accounts is naturally very heavy. After being read by the officer in charge it is handed to the men in charge of the group, who, if it is merely a routine matter, gather the details and write the answer, sending it to the officer's desk for signature. If, on the other hand, it involves a matter of policy, he takes it up with his particular Assistant Trust Officer for decision, and should the assistant feel that it was a

matter requiring higher judgment, he takes it up with a higher officer to ascertain his views.

I will now show you some of the features covering our various departments.

The Security Cage

THE work of this department consists of the receipt and delivery of all securities for the Trust and Custodian accounts. It also prepares the necessary vouchers for the receipt of securities, which vouchers are used as a basis for the entries in co-ordinating departments.

It may not be out of place to remark here that all of our security transactions, of whatever nature, are put through records by means of a fanform ticket; one copy of which is for the Auditor.

NO. SD 22414

THE FARMERS' LOAN AND TRUST COMPANY.
22 WILLIAM STREET

Tr. No. 1234. SPECIMEN DATE July 30th 1927.

RECEIVED FROM THE FARMERS' LOAN AND TRUST COMPANY
ACCOUNT OF John Doe, Esq. (C)

QUANTITY	DESCRIPTION	PAR VALUE
100	American Telephone and Telegraph Company, Capital Stock, Cfd.	\$10,000. <hr/> \$10,000.

VAULT

[Signature]
Trust Officer

F 1913

STOCK FORM

Copy of a fanfold ticket authorizing delivery or release of
a security from a customer's account

The officer authorizing the transaction initials on the Auditor's copy and puts it in a box on his desk. From time to time during the day the Audit Department empties these boxes and takes up these forms to the Auditor's room. In this way every security transaction is placed immediately under Audit control. I might also remark that in preparing a fanfold copy, a copy is always prepared for the man handling the accounts, so that they may be in a position to know immediately what security is coming to their account and be in a position to take any necessary action.

There is one point I would like to make relative to the delivery of securities, and that is, the voucher is prepared from the security ledger and then sent down to the Security Cage which obtains the securities from the vault and makes the delivery. By following this procedure if there is any discrepancy between their records and the actual securities in the vault it is immediately caught by the Vault Custodian.

When instructions for the purchase or sale of securities are received they are first of all routed to the men

FORM NO. 10 BUY	COMPLETE INFORMATION	MUST BE SUPPLIED DATE JUL 26 1967	BUY ORDER No 484
A/C NO. <i>2012</i> JOHN DOE			
(FULL TITLE OF SECURITY ACCOUNT)			
CASH A/C TO BE CHARGED <i>Debit</i>			
REMARKS			
QUANTITY		FULL DESCRIPTION OF SECURITY	
\$10,000. Southern Pacific Co. Conv. 5% due 6/1/1954			
BROKER	PRICE PLACED	EX-ECTION	DATE
<i>John Clark Co</i>	<i>MKT</i>	<i>100 SH</i>	<i>7/26/67</i>
		<i>net 100 Shgs</i>	<i>4/10/67</i>
IS CASH SUFFICIENT? <i>YES</i>		SPECIAL BROKER NO	
REGISTER STOCK NAME OF —			
APPROVED	APPROVED	LETTER NO	TICKETS ISSUED
<i>[Signature]</i>	<i>[Signature]</i>	48235	<i>[Signature]</i>

1-800-368-6868 <div style="display: flex; justify-content: space-between;"> SELL COMPLETE INFORMATION MUST BE SUPPLIED DATE JUL 26 1987 </div>		1-800-368-6868 <div style="display: flex; justify-content: space-between;"> SELL ORDER No. 589 </div>	
A/C NO. <i>EST</i> JOHN DUE		(FULL TITLE OF SECURITY ACCOUNT)	
CASH A/C TO BE CREDITED DEPOSIT		(FULL DESCRIPTION OF SECURITY)	
REMARKS BY C/O OF DEPOSIT INDICATE BALANCE QUANTITY FULL DESCRIPTION OF SECURITY			
100 shrs. General Motors Corp. Common			
BROKER <i>John D. Smith</i>	PRICE PLACED <i>MKT</i>	QUANTITY <i>100</i>	ORDER NO. <i>220</i> <i>La. Super. Tax. Inc. 11/87</i>
ORDER NO.		DATE	TICKET NUMBER <i>589</i>
TRACERS REMARKS		ORDER NO.	
IS SECURITY NEGOTIABLE? <input checked="" type="checkbox"/> YES		SPECIAL BROKER <input type="checkbox"/> NO	
IF STOCK PAR VALUE <input checked="" type="checkbox"/> NO PAR		WHERE IS SECURITY? VAULT X LOAN CASE	
IF BONDS INTEREST DATES		ORDER NOTED ON SECURITY CARD BY <i>EC</i>	
CHECKED <i>6/8</i>	APPROVED <i>7/7/87</i>	LETTER NO.	48252
48252		TIME	

In this way there is a record all along the line for all securities sent out by registered mail.

<p>BOUGHT THE FARMERS' LOAN AND TRUST COMPANY <small>31 WILLIAM STREET NEW YORK</small></p>		<p>CONFIRMATION AND ADVISE OF CHARGE</p>	
<p>DATE OF PURCHASE JULY 26 1927.</p>		<p>No. 17103</p>	
<p>TO JOHN DOE ESQ.</p>		<div style="border: 1px solid black; padding: 5px;"> <small>DATE OF CHARGE</small> JULY 26-1927 </div>	
<p>CASH ACCOUNT CHARGED</p>		<p>DEPOSITA/C</p>	
<p>SECURITY ACCOUNT IN WHICH SECURITIES ARE TO BE HELD</p>		<p>CUSTODIAN</p>	
<p>WE HAVE CHARGED YOUR ACCOUNT AS ABOVE FOR THE FOLLOWING SECURITIES WHICH HAVE BEEN DELIVERED TO US TODAY</p>			
PER VALUE OR NUMBER OF SECURITIES	SECURITIES	PRICE	PRINCIPAL, AMOUNT
	\$10,000. SOUTHERN PACIFIC CO. CONV. SS 6/1/1934	102 5/8 INT & BKGE.	\$10282.50
			<small>ACCRUED INTEREST</small>
			77.78
<p>INTEREST FROM JUNE 1 1927 TO JULY 27 1927.</p>		<p>AMOUNT OF CHARGE →</p>	\$10360.28
<p>SECURITY NUMBERS</p>			
<p>INT. JUNE AND DECEMBER 1ST NOS. 75797/300 WITH THE DECEMBER 1927 AND SUBSEQUENT COUPONS ATTACHED.</p>			
<p><small>YOUR VERY TRULY</small></p> <p style="text-align: center;">THE FARMERS' LOAN AND TRUST COMPANY</p> <p style="text-align: center;"><small>BY <i>[Signature]</i></small></p> <p style="text-align: center;"><small>CHAS. H. HARRIS, PRESIDENT SECRETARY: GEORGE L. BAKER</small></p>			

SOLD THE FARMERS' LOAN AND TRUST COMPANY 22 WILLIAM STREET NEW YORK	CONFIRMATION AND ADVICE OF CREDIT No 14360 <div style="border: 1px solid black; padding: 2px; display: inline-block;"> DATE <u>JUL 26 1927</u> </div>		
TO JOHN DOE ESQ. 	DATE OF SALE JULY 26 1927. 		
CASH ACCOUNT CREDITED - SECURITY ACCOUNT FROM WHICH SECURITIES WERE DELIVERED	DEPOSIT A/C CUSTODIAN		
WE HAVE CREDITED YOUR ACCOUNT AS ABOVE FOR THE FOLLOWING SECURITIES WHICH WE HAVE DELIVERED TODAY:			
PARTIAL OR UNPAID RECEIPTS	SECURITY	PRICE	PRINCIPAL AMOUNT
100 SHRS. GENERAL MOTORS CORP. COMMON		220 LESS BKGE & TAX	\$21,966.
INTEREST FROM NO PAR	TO	AMOUNT OF CREDIT →	\$21,966
SECURITY NUMBERS _____			
<p style="font-size: x-small; margin: 0;">V. L. R. VERY TRUELY, THE FARMERS' LOAN AND TRUST COMPANY <small>BY _____ SECRETARY OFFICER</small> <small>(REGISTERED TRADE)</small></p>			

1. The securities held in each trust or custody account.
2. The individual holders of the several securities.

In addition they maintain a blotter of the daily transactions and prepare the out vouchers previously referred to. Also make up statements and perform a few other incidental duties that generally go with the keeping of a security ledger.

The records of a Trust Company must enable its officers and staff to know immediately what securities are held in a given account. The records also must enable them readily to ascertain which of its customers are holders of any given securities. This is necessary for purposes of stock dividends, subscriptions, reorganization, etc. It is also advisable to maintain a blotter or record of the transactions of each day.

Our security ledgers are in card form and are kept on Elliot Fischer machines.

DOE JOHN ESO CUSTODIAN		Trust No. XXXXX	
ADMINISTRATION RECORD			
CREDIT ENDING TO CUS TODIAN A/C			
ADVISE YES			
DISPOSITION OF PRINCIPAL CREDIT DEPOSIT ACCOUNT - MAIN OFFICE			
SECURITIES TO BE REGISTERED IN N.O. NOMINEE			
SECURITIES TO BE HELD IN NEGOTIABLE FORM YES			
DISPOSITION OF PROCEEDS FORWARD TO JOHN DOE & CO. 67 WILLIAM STREET NEW YORK CITY			
INSTRUCTIONS IN RE RIGHTS EXERCISE ALL RIGHTS			
INTRODUCED BY MR. J. T. JONES DEPOSITOR			
OVER			

This is the general instruction card at the head of each account giving the main facts regarding the handling of the account

DOE JOHN ESO CUSTODIAN		Trust No. XX	
DATE	DEBIT	CREDIT	BALANCE
1/26/27	40000 00	10000 00	40000 00
7/26/27	30000 00		30000 00
7/26/27		32500 00	32500 00

The General Balance Card showing the par value of securities held, and daily changes

We have so contrived that all the above records are made at one writing. This, as you can imagine, is a tremendous time saver, and also eliminates any discrepancy between records. Furthermore, since the blotter is a copy of what is actually written in the ledger, the checking of this blotter by the Auditing Department makes a very complete audit of our security ledger entries. The cards are filed in fire-proof tubs and are under the charge of competent file clerks.

We have added a number of mechanical features to assist in the correct filing of our cards, and also have a system whereby any card which leaves the file has substituted for it an "Out Card." The file girls know exactly who has any cards and before leaving each night check up to see that every card is returned to the file. We have been running this system for two years and feel that we have thoroughly met the usual objections raised to a card ledger, namely, that of the possible loss of the card; at the same time we are reaping the great benefit which comes from the flexibility of a card ledger.

The posting mediums for this department are the security ledger copies referred to under the work of the Security Cage, plus similar vouchers which are received from the Bond and Mortgage and Real Estate Department.

DOE JOHN ESO CUSTODIAN		Trust No. XX	
AMERICAN TELEPHONE & TELEGRAPH COMPANY	5 1/2	NOV 1 1943	M I N
10000 00		10000 00	

Card showing record of a bond holding

DOE JOHN ESO CUSTODIAN		Trust No. XX	
GENERAL MOTORS CORP	3 00	JUNE 15	NO. PAR
100 SHS CTF # 5285 N/O JOHN DOE & END RECD FROM HIM		10000 00	
SOLD 100 SHS @ 220 LESS BKGE & TAX		10000 00	

Card showing the record of a stockholding

DOE JOHN ESO CUSTODIAN		Trust No. XX	
COUPON BOND	AMERICAN TELEPHONE & TELEGRAPH CO 3 1/2	GOLD 5 1/2	M I N
DATE	OLD BALANCE	NEW BALANCE	BALANCE
1/26/27	0	10000 00	10000 00
3/2	10000 00	15000 00	25000 00
12/3	25000 00	5000 00	20000 00
1/27	20000 00	25000 00	45000 00
7/15	45000 00	15000 00	30000 00
8/3	30000 00	20000 00	10000 00

Control card showing the total number of a given security held in the institution

DOE JOHN ESO CUSTODIAN		Trust No. XX	
AMERICAN TELEPHONE & TELEGRAPH COMPANY	5 1/2	NOV 1 1943	M I N
10000 00		10000 00	

One of the cards posted in this account

I would like to call your attention to the fact that we not only make a blotter but that we make four copies thereof for use in several departments at the same time. Naturally, the figures are proved periodically and the complete proof of all the ledgers taken off at least once a month has to agree with the control figures set up in the Auditing Department.

Bookkeeping Department

SO far as the handling of securities is concerned, this department has a very small part. The work of this department is to record all the cash transactions relative to our Trust Funds and to those of our custodian accounts who do not maintain their cash account as an ordinary checking account. As far as the purchase and sale of securities, therefore, is concerned, this department records the cash end of such transactions. We have recently put this department on Remington Bookkeeping Machines and have found them to work out very satisfactorily, one of the most marked results being the much better hours our bookkeepers are enabled to make around the peak time at the end of the month.

Coupon Collection Department

THE work of this department consists of the collecting, crediting and advising of clients of the collection of coupons and dividends, together with principal items belonging to our trustee and custodian accounts.

It also handles coupons taken in from the banking clients by the coupon receiving teller. The department also follows up delinquent and unpaid items with appropriate advice to our clients giving the reason for delinquencies. We have found this service to be very much appreciated.

Formerly we kept an immense tickler system on cards of the coupons and dividends due. From these cards we would make up each month the necessary credit tickets and advices. Some time ago, however, we placed the information on these cards on addressograph plates, with the result that instead of taking days to make up our credit tickets and advices, we can now accomplish

that part of the work in a few hours. Moreover, when we have the addressograph plate correct there can be no error, and we are saved the tedious effort of calling back our tickets against our tickler. The basis of the work of this department is one of the blotters which is prepared by the Security Records Department.

One of the great problems of our Coupon Collection Department is that it is essentially a department of peaks, the great bulk of the work coming around the first of each month. This problem was intensified in our case by the large volume of work which we handle, and under our old method the end of the month was somewhat a nightmare. With the addressograph machine it has been our experience that, on the heaviest days of the year, January and July 1st, when approximately 20,000 tickets pass through this department, the advices were in the mail by eight o'clock.

Investment Department

THE prompt execution of a customer's orders for the purchase and sale of securities is absolutely necessary for the protection of his interest, as well as your own. It is also absolutely necessary to have at hand a large amount of data regarding securities, both for the purpose of judging what action shall be taken on trust investments, and also to be in a position to give competent advice to such of your custodian clients as may need it. Having such a large volume of securities under our control, we have found it necessary to have our own Investment Department, where statistics, statements, reports and advice are available. All this is open to our customers' use and although we have no securities for sale, we are most pleased to extend to them all the information at our command.

This department also maintains a close watch on periodicals and publications for issues that are being redeemed, convertible features, right to subscribe, etc. And as you know, all this is becoming more and more a very important factor and feature in Custodian service.

Reorganization and Subscription Department

ON account of the vast amount of new securities being offered for subscription to stockholders, and the large number of convertible features which are becoming available, we have found it necessary to organize a separate department to take care of all the details of this feature of the business.

The Investment Department sends daily to this department advices of subscriptions and other rights or privileges attaching to securities. The department then immediately obtains from the Security Ledgers a list of the holdings of the particular securities in question and prepares the necessary advices to the customers which go out over the custodian men's desks. In relation to the work of this department we have some rather queer experiences. For instance—one of our customers held some Delaware & Hudson Convertible bonds. The conversion privilege expired October 1st. We wrote him a letter in July and having received no answer we followed it up with a second letter on the first of September, and

P 4002A 2M 9-27 2306

THE FARMERS' LOAN AND TRUST COMPANY
22 WILLIAM STREET
NEW YORK.

THE PROCEEDS OF THE FOLLOWING COLLECTION HAVE BEEN CREDITED TO YOUR ACCOUNT, AND UNLESS REINVESTED WILL DRAW INTEREST AT THE RATE WE ALLOW YOU ON THAT ACCOUNT. YOU MAY GIVE US INSTRUCTIONS AS TO REINVESTMENT OR CONSULT US ON THE SUBJECT IF YOU HAVE NOT ALREADY DONE SO

CHECKED BY _____ THE FARMERS' LOAN AND TRUST COMPANY
APPROVED BY _____ H. D. SAMMIS TRUST OFFICER

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Special advice to customers regarding collection of principal items

not having received a reply to this letter we telegraphed him. We still received no word from him and finally it was necessary for us to take action on our own initiative in order to safeguard his interests. This illustrates how little attention some people give to their investments, even when they are called particularly to their attention. It is not difficult to imagine what a large aggregate loss investors must suffer through lack of attention to their securities, both because of inattention and lack of knowledge and experience. To me this is one of the strongest selling points for custodian service.

In conclusion our custodian business, while it has undoubtedly been helped by advertising, yet it has grown because there is a fundamental need of such service today. Securities are owned by two classes of people: those in active business and those of independent means who have never been in business or are now retired from business.

Collateral Profit

THE active business class finds that, owing to the increased pressure of business today, their own personal affairs suffer through lack of attention. Those not in active business find, because they are outside of business circles, it is very difficult for them to maintain that watch and ascertain the facts that are so necessary for the care of investments. The multiplicity of investments today is so great that an individual with many varied securities requires the use of a Statistical Department or a News Service Bureau to really keep abreast of and watch his interests.

So much for the value of custodian service to the public. Now just a word about ourselves. Of course, we charge a fee for this service, and when the business is in volume it is profitable. There is, however, a collateral profit which seems to me makes it very worth while to build up a custodian business. There is no question but that advertising, and other educational methods, are gradually teaching the public the value of a corporation as executor and trustee, but even after an individual has been sold on the corporate fiduciary idea, he still has to be sold on some particular institution. There is no better way of doing this than by proving during a person's life-time just what you can do for him and just how you do it. The character of your work and of the persons who will come in contact with your customer, all combine either to sell your institution or discourage him from further dealings with you. The value of competent custodian service, therefore, as a means of inducing an individual to name you as an executor of his will or as trustee is obvious.

In view of this it becomes increasingly evident that custodian work, if you attempt it, should be done on a high class plane. Frankly it would be better for any institution not to attempt it, rather than to do it in the way that causes dissatisfaction and trouble to the customer. Now it is impossible for any institution to do this work in a high class way without incurring a large overhead, and therefore, the legitimate cost of doing this business should be borne by your customers. This is a legitimate service, one in great demand, and should be paid a living wage

It has been a pleasure to explain to you something of what we do at The Farmers' Loan & Trust Company, and it would be a greater pleasure to show you, or some representative of your Company, in person, our actual departments in operation.

CHAIRMAN MECHEM: Mr. Sammis, on that somewhat important matter of charges and compensation with which you saw fit to close your paper, some of the banks and trust companies are finding that if they conduct this custodian service on the high plane which you advocate—which of course is the only plane on which it ought to be conducted—they are not getting a net return commensurate with the time and responsibility involved. They are finding that while the standard of charges is ample for the ordinary account, that there are certain specially active accounts for which the compensation is not sufficient, and some banks, I know, are attacking that problem by analyzing their accounts and by increasing their charges for particularly active accounts. I would be glad to know if you have had any experience of that kind.

Analysis of Accounts

MR. SAMMIS: Yes, we have. We have always been in favor of charging for this service. We have regarded it as a legitimate service, and not a sort of by-product to build up some other department, and in that way have some other department carry it. At the same time, we had accounts that have been on our books for many years and were not paying the fee that they should pay. Last year a very close analysis of the accounts was started, and while we haven't completed that analysis, yet so far as we have gone, we have increased our fees \$25,000 annually and we haven't lost an account.

My experience has been that it is the exceptional customer who expects to get a whole lot for nothing. If you, in a dignified way, go to this person and explain why you want this, in order to maintain what you are doing and why you must be paid, my experience has been that you will get it.

Too long has this service been looked upon as a kind of side issue. It hasn't been properly appreciated. The opportunity today is far greater than ever before, and in another five years it will be even greater than it is today. I think the banks have got it in their own hands. No bank can start a department of this kind and create all the departments without running at a loss at the start, but you eventually can put it on a paying basis; that is, if you adhere to the charges.

CHAIRMAN MECHEM: How do you do it, by analyzing your accounts for the customers and then showing them the cost?

MR. SAMMIS: I wrote letters to our customers. In those letters I told them what we were trying to do. I tried to make each letter a heart-to-heart talk, and informed them in as nice a way as I possibly could. And, as I said before, we never lost an account. There were accounts which came back and said, "Why, here, I have been paying this for years." And my answer to that would be, "That is all the more reason why you should pay the new fee now," and we got them.

CHAIRMAN MECHEM: Is there anybody here who would like to make any contribution to this question of additional charges for particularly active accounts? It is an important question for all of us, I think, and I would be very glad to have any contribution from anyone who has had any experience in this.

DELEGATE: I think the Chairman could add to the discussion by telling us somewhat of the experience he has had in Chicago.

The Chicago Ruling

CHAIRMAN MECHEM: That wasn't the aspect of the matter which I had particularly in mind, although I would be glad to say briefly what I said last year. All of us have been bothered by the problem that in our own banks, in the Commercial Division, we were keeping customers' securities for nothing, while across the hall or upstairs or somewhere else in the bank the trust department was making a charge for a service which, if it differed at all, differed only in the technical responsibility which the trust department was assuming, as distinguished from the responsibility which the commercial end of the bank was assuming.

We have been discussing that problem in Chicago for years and years and years, and we have been unable to get anywhere with it until last year, when we finally had the matter taken up through our Clearing House Committee. And as you perhaps know, we now have a clearing-house rule in Chicago, which provides that no clearing-house bank or bank affiliated with the clearing-house shall hold any securities for its customers for a longer period than three months, without making a charge, except securities of a maturity less than twelve months actually entered for collection.

Our charge is the same as the charge that was made before by the trust departments, with the exception that over and above quite a substantial charge the matter of additional charges is discretionary.

But more than that, we must, I am sure, as Mr. Sammis has said, take our active accounts and charge our customers more than our scheduled fee for them, don't you think that is true?

DELEGATE: Yes, I do.

MR. C. F. SUKOSKY, JR. (Vice-President, The First National Bank, Birmingham, Ala.): What is the schedule for fees?

CHAIRMAN MECHEM: Mr. Taylor, will you tell us what the schedule for fees is in Chicago?

MR. F. F. TAYLOR (Vice-President, Illinois Merchants Trust Co., Chicago, Ill.): As I remember it, the fee for custodian accounts is one dollar a thousand for the first million, (correct me if I am not right, Mr. Mechem) and seventy-five cents for the second million. Is it fifty cents for amounts thereafter?

CHAIRMAN MECHEM: Yes, it is according to my recollection.

Mr. Bestel, do you recall the amount above which a further charge is discretionary?

MR. O. J. BESTEL (Vice-President, First Trust and Savings Bank, Chicago, Ill.): \$1,500. I might supplement Mr. Taylor's statement to the effect that our schedule makes a distinction between bonds, stocks and

mortgages. In the first bracket of \$1,000,000 the rate is \$1.00 per \$1,000 on bonds, \$.05 per share on stocks, \$2.00 per \$1,000 on the first \$10,000 of each individual mortgage and \$1.00 per \$1,000 on the balance of the mortgages; on the second bracket of \$1,000,000 the rate is \$.75 on bonds, \$.03¾ per share on stock, and on all over \$2,000,000 the rate is \$.50 per \$1,000 on bonds and \$.02½ per share on stocks. The mortgage rate is the same throughout the entire schedule.

CHAIRMAN MECHEM: We are authorized, are we not Mr. Bestel, to make a reduction of charges on mortgages purchased from our own Real Estate Department?

MR. BESTEL: We have the privilege of charging a straight \$1.00 per \$1,000 rate on such mortgages.

CHAIRMAN MECHEM: Mr. Sammis has given us some very interesting details on their very scientific method of conducting this custodian department, and I am sure that he will be glad to answer any questions.

MR. ROBERTSON GRISWOLD (Vice-President, Maryland Trust Co., Baltimore, Md.): Mr. Sammis spoke about an additional charge on active accounts, based on a standard charge, is that right?

MR. SAMMIS: In particular accounts, on account of their activity,—we have had two accounts of that nature—we have had to arbitrarily set a fee on what we figured our service was worth. We made an analysis of them, that is, we made a listing of so many transactions each day, in and out, and then we went to the customer and said, "We will base the charge on your present activity, the present size of your account. We are going to charge you so much a year, which was more than one-tenth of one per cent."

MR. BESTEL: Your situation is a little different from ours. We have different rates on different classes of securities, but what I am interested in is your method of computing fees. Do you charge on the largest volume of securities held at any one time during the year, or do you pro-rate your fees on a monthly, quarterly, or semi-annual basis?

MR. SAMMIS: We figure our fees every six months, and then a clerk figures on an average balance and practically takes the largest balance for that month. That is the way it is figured. The card that I showed to you, showing the par value of the security, that showed the entire transaction, so much in and so much out, is the one to figure an average on, but the highest average for each particular month is taken.

CHAIRMAN MECHEM: Are there any further questions? If not, let me say in closing, that many of the large metropolitan banks, if not the banks of the smaller cities, are making a careful analysis of their accounts. They are doing it on specially prepared forms, setting down the number of transactions, the number of entries, and figuring the cost to the bank of that particular account. Then they take them up one by one with their customers and explain to them why it is that the bank is not getting a satisfactory return on that particular customer's account. That is a matter well worth the thought of all of us.

The next topic on our program comes to us from and through the courtesy of the Financial Advertisers Association. That is an association with which we are all familiar. I guess all of us who have new business de-

partments have a representative of the bank interested in that association.

Some time ago certain members of that association who were particularly interested in the development of new trust business as distinguished from other kinds of banking business, formed the Trust Development Division of the Financial Advertisers Association, and the demonstration which we are to have this afternoon comes

to us from and under the auspices of the Trust Development Division.

This will be a sales demonstration, ladies and gentlemen, conducted under the auspices of the Financial Advertisers Association, by Mr. Paul Laferty, of the Union Trust Company, Cleveland, Ohio; and Mr. Thoburn Mills, of the Guardian Trust Company, also of Cleveland, Ohio.

Interviewing a Prospect

A Sales Demonstration Conducted Under the Auspices of the Financial Advertisers Association.

PAUL LAFERTY

Representative, Union Trust Company, Cleveland, Ohio

THOBURN MILLS

Assistant Trust Officer, Guardian Trust Company, Cleveland, Ohio

MR. LAFERTY: In order to compress this sales interview into the time allotted, it has been necessary to assume something. We assume that Mr. Mills is forty years of age—a violent assumption. We assume that he is married and that he has three children; a boy thirteen, a girl ten and a boy seven. We assume that he is Works Manager of a large corporation, with a salary of fifteen thousand dollars a year; that he owns a twenty-five thousand dollar home—free and clear of debt—and has about thirty thousand dollars in investments, including a little stock in his company. Obviously, we couldn't say everything in this demonstration that would be said in such a conversation. It is confined strictly to the subject of a life insurance trust.

MR. LAFERTY: Mr. Mills, I am Paul Laferty of the Ohio Trust Company. Mr. Jones of our Trust Department said you stopped in to see him the other day and asked to have someone call on you to explain our insurance trust service.

MR. MILLS: Yes, I saw one of your advertisements last week and I have heard so much about insurance trusts, living trusts, etc., that I am getting curious to know what it is all about.

MR. LAFERTY: Well Mr. Mills, it is really very simple. After all, the whole idea is that you ask a trust company to do the things for your family that you would do if you were here to do them yourself. (Picking up photo and looking at it.) Is this your family Mr. Mills?

MR. MILLS: Yes, that picture was taken a year ago.

(Pulling prints from pocket.) Here are some snapshots that I took just the other day. This little fellow is the baby of the family. He will be seven years old next month. Betty, the girl, thinks she is a big girl now for she is just past ten. My oldest boy, Junior, is thirteen and in his first year in high school.

MR. LAFERTY: Well, they certainly look like a happy family and I bet they have a lot of fun together. I imagine that you were thinking pretty much of them when you took out your last block of life insurance.

MR. MILLS: Yes, a fellow does sort of think of his responsibilities as children come along. It seems no time at all since Junior was a youngster toddling around the house, and here he is talking about college already. When I was in high school I wanted to go to college, too, but my parents could not afford to send me so I got out and hustled for myself. I want to give all three of my children the advantages that I missed. That's one reason that I carry as much life insurance as I do.

MR. LAFERTY: Well, you look pretty fit and will in all likelihood see them through college and well started in life. But, of course, every sane man protects his family's future as you have done. I suppose the thing you'd want done if you weren't here to take care of your family would be to keep them together in the home until the children start out for themselves, wouldn't it?

MR. MILLS: Yes, we have grown up in the neighborhood where we live and I would like to have them keep that home if they can possibly do it. The home is free and clear so they would not have to bother about paying off a mortgage and their only cost would be the upkeep, taxes, etc. Of course they would have their living expenses, I know, but they would be about the same

anywhere. Then there would be educational expenses. I have been looking into the cost of college education and it runs pretty high nowadays.

MR. LAFERTY: I suppose the best way to make sure that your family would be able to keep together would be to arrange your life insurance so that no matter what happened to the rest of your estate a steady income would be coming into them periodically, and so that when the need came to pay tuition in college that could be done out of the principal of the estate.

MR. MILLS: Yes, I have thought of something like that, but I do not want to tie Mrs. Mills' hands too much. She is a pretty capable business woman, and after all, this money is as much hers as mine.

MR. LAFERTY: Yes, of course that is true, and this arrangement would simply take the load of investing your insurance proceeds off the shoulders of your wife and put it on the trust company, leaving your family the full benefit of the income and as much of the principal as you think ought to be used. This really gives them all the advantages of the insurance money without any of the disadvantages of looking after it.

MR. MILLS: Of course Mrs. Mills is a mighty good manager. She is really more conservative than I am, and I have the utmost confidence in her judgment.

MR. LAFERTY: That's splendid and you are very fortunate to have such a level-headed partner, but is it fair to throw the responsibility on her? You have shielded her all these years and tended to all the business matters. Then you suddenly thrust \$50,000.00 in her hands and say "Invest this, and remember, there is no more coming to you—ever. You have to get along on this." Imagine yourself, today, with every cent you will ever earn, in the Bank. What would you do with it? Wouldn't you be afraid to buy anything because it might go bad and leave you destitute with no earning power and three children to support?

MR. MILLS: There is something in what you say Mr. Laferty, but what's to be done about it?

MR. LAFERTY: Select somebody to do the job for her who is responsible and especially trained. One who has had years of experience in that sort of thing. If you are sick you go to a doctor to have him fix you up. The trust company is your financial doctor. Let the trust company diagnose your case and prescribe a remedy.

MR. MILLS: The remedy being in this case, I suppose, an insurance trust?

MR. LAFERTY: Exactly!

MR. MILLS: Well, if I were to arrange my insurance as you suggest, how would I go about it?

MR. LAFERTY: You would simply make your insurance policies payable to the Bank as trustee, and tell the Bank how to invest the proceeds, where to pay the income, how to use the principal from time to time, and where finally to distribute the principal.

MR. MILLS: Would I turn the policies over to you?

MR. LAFERTY: Yes, we usually hold the policies to facilitate collection of the proceeds, although that is not absolutely necessary.

MR. MILLS: But suppose I wanted to borrow on the policies, or change the plan of operation, or even to withdraw them from the trust agreement? I could not do that if I turned them over to you, could I?

MR. LAFERTY: Yes. The ordinary agreement provides that you retain all of the rights which you have under the policies and that in addition you may withdraw any, or all, of the policies, or revoke the agreement entirely. You also reserve the right to deposit additional policies under the trust agreement.

MR. MILLS: When you collect the proceeds of these policies, how do you invest the money?

MR. LAFERTY: In investing we are governed entirely by your directions in the trust agreement. If you care to specify the classes of securities to be purchased, you may do so. Of course, it is pretty hard to look into the future and what is a good investment today might not be tomorrow. It is probably better to tell the trustee to use its best judgment at the time the investment is to be made, because you and I can't figure out what will be good investments twenty or thirty or even five years from now.

MR. MILLS: Yes, that is true. I know that I'm not a seventh son of a seventh son and I'd hate to make a prophecy about the future value of any of the investments I hold today. But how do I know that the trust company won't pawn off on my trust a lot of poor securities they can't get rid of elsewhere, or make bad investments?

MR. LAFERTY: It is a well settled principle that a trustee can't deal with a trust estate for his own profit and he cannot benefit from his handling the trust save through the trustee's fee. Of course, we expect to be in business for a good many years to come, and we couldn't last very long, in fact we wouldn't have lasted as long as we have if we had not exercised the highest degree of faith in our fiduciary relations. The trust company uses the highest possible degree of care and diligence in selecting trust investments. The question for you to decide is, who is going to do your job for you after you are gone? Somebody has to do it. We offer you the most fool-proof plan that it's possible to get. A trust company is so organized that no one man makes the decisions on investments. It's all done by the trust or investment committee which is composed of a group of successful, mature business men, attorneys and bankers selected from its officers and directors. They make every trust investment and are guided in their decision by the findings of their Statistical Department. This department spends all its time getting information on each company whose securities are held in trust or being considered. The financial statement of each company is analyzed and compared with the statements of the leading companies in the same industry. This is a continuous process and every security held in trust is constantly being analyzed in the light of changing business conditions. When the trust committee finally makes its report it must be ratified by the Board of Directors of the trust company before action is taken. Thus the investments are handled scientifically and every precaution is used to make this investment service as safe as possible.

MR. MILLS: It sounds very comprehensive.

MR. LAFERTY: It is. As you know, business today is done largely on confidence and we don't want your business unless you have confidence in us and feel that we are trustworthy and that your family will be safe in our hands.

MR. MILLS: If I should leave the investing up to you, what sort of securities would you buy with the money?

MR. LAFERTY: We invest trust funds of this nature, when we have the discretion, in high grade securities, approved by the Trust Committee of the Board of Directors. I brought along a copy of this list dated yesterday so that you can see the type of investments we are using for this purpose.

MR. MILLS: Yes, those all look like good securities. Then the income from the trust would be paid to Mrs. Mills regularly?

MR. LAFERTY: Yes. We would pay the income to her either monthly or quarterly, as you think best, and if she should predecease you, or upon her death, we use it for the benefit of the children.

MR. MILLS: I could do that by using the options I have under my insurance policies, couldn't I?

MR. LAFERTY: No, not exactly, for an option settlement provides for the payment of a definite sum per month for a stated period, or for the payment of the income and then the payment of the principal at a definite time.

This plan is a good one and in most cases is very much better than a lump sum settlement. Under the life insurance trust plan your policies would all be concentrated in one fund, and the income to your beneficiaries would come from this one source only. Then too the life insurance trust is a very flexible arrangement. It is often wise to provide that in addition to the income, payments be made out of the principal to take care of emergencies such as a severe illness, an operation, increased cost of living, education, etc.

If you and your wife should both die, leaving minor children, the trustee would use the income and principal, if necessary, for the comfort, support and education of the children. Instead of turning the income directly over to the children, the trustees would pay all their bills, give them an allowance and see that the funds are being used for what they are intended, just as you will do if you are living.

MR. MILLS: That's a good idea Mr. Laferty, because children do need supervision and guidance. I know of a case where a father and mother died and left a large estate to a son and daughter. The legal guardian of the children is a kindly old friend of the family and the children just run all over him. The son has flunked out of three colleges and is about as worthless a young rake as could be and the daughter isn't much better. This is largely due to the laxity of the guardian in letting them run wild and giving them too much money. He is giving them the very means of going to the devil. I certainly don't want my children to turn out like that. If I thought there was any danger of it I would drop my insurance immediately and let them scratch for a living.

MR. LAFERTY: Yes, money foolishly handled is worse than none at all. That's one task of a trust officer—to prevent such tragedies. If the trust company handles your estate, the trust officer will get to know your children personally, he will counsel with them and give them everything they need and want and can afford, within reason, but he won't stand for any foolishness.

He will train them along investment lines so that they will be able to handle their property when they get it later on.

MR. MILLS: You say that the trustee can use principal for emergencies. What constitutes an emergency and who decides whether principal shall be used?

MR. LAFERTY: Emergencies are doctor bills, hospital bills, medicine, education, increase in the cost of living, and things like that. Principal will always be used for these things if the income is not sufficient. Things your beneficiaries cannot afford are luxuries and principal will never be used for them. The trustee will decide what an emergency is and will be guided by the theory that emergencies are those expenditures that a reasonable man would say were necessary in exercising this discretion. We will decide as we think you would have decided were you there to consider the matter, having in mind the necessities and capabilities of the members of your family, their other income and the size of the trust estate, together with any provision which you have put into the trust agreement. The trustee will endeavor to maintain your family in the standard of living to which they have been accustomed if the income will do it.

MR. MILLS: What would all this service cost me?

MR. LAFERTY: Well Mr. Mills we make no charge whatever until we collect the proceeds of the insurance policies and begin receiving income from the investment. Even then the cost is nominal. It is 5% of the income each year, and 1% of the principal upon final distribution whenever that would be in the future. On your \$50,000 trust, assuming that the income would be 5½% gross income, or \$2,750.00 a year, the trustee's fee would be 5% of that, or \$137.50 a year. The total distribution fee over the whole period of the trust would be 1% of the principal, or \$500.

MR. MILLS: That seems fair enough, but suppose I should enter into such a trust with you and then change my mind and want to cancel it?

MR. LAFERTY: We recommend that in your case you retain the right to revoke the agreement, to withdraw any or all of the policies, and to make any corrections or modification and, of course, in addition, you retain every right that you now have to deal with your insurance policies, to borrow on them, to take the cash surrender value, to receive the dividends, etc.

MR. MILLS: It all sounds very interesting, Mr. Laferty and I will think the matter over.

MR. LAFERTY: Probably the easiest way for you to decide whether a life insurance trust would be best for your family, would be for me to sketch out an agreement and submit it to you for your consideration. It is a whole lot easier to consider the matter with such a basis to work from, as you can say "This suits me and this doesn't" and I would rather have it *this* way. I think I have a pretty fair idea of what you want to do for your family and enough information to make this rough draft. Oh no—let's see, I do want the children's ages. Junior is thirteen, isn't he, and his full name is the same as yours. In what month was he born, Mr. Mills?

MR. MILLS: July, the 10th of July.

MR. LAFERTY: That would be in 1914? And Betty?

MR. MILLS: Her name is Elizabeth Ann, and she was born in September 23, 1917.

MR. LAFERTY: And the youngest is?

MR. MILLS: Mark James. He was born March 5, 1920.

MR. LAFERTY: In making this rough draft, suppose we have it provide for your wife as long as she lives and then, at her death, continue on for your children until final distribution is made. At what ages would you want your children to receive the principal?

MR. MILLS: I hadn't thought of that. Of course, twenty-one is too young. If I'd fallen heir to any money at twenty-one I wouldn't have a cent of it now. I might give it to them at twenty-five or thirty. I don't want to tie them up too long. What's the usual thing, Mr. Laferty?

MR. LAFERTY: Families vary so much and the conditions in different classes are so varied also that it is pretty hard to say that there is any usual thing. For the purpose of this sketch, what do you say if I drew it so that the children receive one-third of their share at twenty-five, one-third at thirty and one-third at thirty-five. That would spread the payment of the principal out over a ten year period.

MR. MILLS: That would be just right. Then, if they lost it at twenty-five, they would profit by that experience and they would hold on to the rest when they got it.

MR. LAFERTY: I think this will be done in about a week, Mr. Mills. I will 'phone you when it is ready so that we can go over it together.

MR. MILLS: Thank you, Mr. Laferty. Give my regards to Jones. Good-bye.

MR. LAFERTY: I will, Mr. Mills. Good-bye.

. . . . They shook hands and parted . . . (Applause)

CHAIRMAN MECHEM: That was very good, wasn't it?

If there are no questions, we will stand adjourned until nine-thirty o'clock tomorrow morning.

(Adjournment)

THIRD SESSION

Wednesday Morning, February 15, 1928

Mr. F. W. Denio, Member of Executive Committee, Trust Company Division, American Bankers Association, and Vice-President of the Old Colony Trust Company, Boston, Mass., presiding.

CHAIRMAN DENIO: This morning's session is to be devoted to the problems of a section of our trust company business, that to my mind is the result of the most creative effort that has been put forth by the Association in many years. As you all know, our Division has a Committee on Insurance Trusts that has been in operation for at least five years and from the point of view of my own company and our own district, I may say only this year has the snowball it started, commenced rolling. I am sure that you have experienced some of the same results in your several districts. A great measure of the success we have had has been due to the work of this Committee and to the committees of the life insurance underwriters that have been working on this problem.

Those of you who were here yesterday morning and heard Francis Sisson's remarks on the growth of the trust companies and of the trust departments, I am sure, felt that a great deal of that was due to the advertising that had been carried on, advertising the insurance trust idea. After all, that brings in the other type of business just as well as it does the insurance trust itself. You have all found it to be a feeder for your other departments.

Without taking more of your time to say some things that I would like to about the work of this Committee, I am going to introduce Judge Thomas C. Hennings, who has been the efficient Chairman of this Committee on Insurance Trusts of the Trust Company Division and Vice-President of the Mercantile Trust Company of St. Louis. He doesn't need any introduction to this group.

What Cooperation Between Insurance and Trust Companies Means to America

By THOMAS C. HENNINGS

Vice-President, Mercantile Trust Company, St. Louis, Mo.

MR. CHAIRMAN, Ladies and Gentlemen: About three years ago a question arose in the minds of many, whether or not we should devote any more time at the regular mid-winter conference to the discussion of insurance trusts. We felt that as the subject had been on the program for three previous meetings, it would be well to omit that discussion from the regular program and ask those who were interested in the subject to stay over the day following the regular sessions. Much to my surprise, but not to Mr. Mershon's, the meeting was very well attended.

The whole subject of life insurance trusts has developed a deep interest in the minds of trust people in national banks and trust companies. That is indicated by the advertising copy on the boards out in the hall. Over two-thirds of the advertising is related to life insurance trusts. Although the life insurance trust is not a new proposition, it was given new life about seven years ago. At that time there was practically no literature on the subject; today there is a vast quantity of such literature and several books have been written, dealing with the subject at length. Mr. A. C. Robin-

son of Pittsburgh and Mr. Woods of sainted memory have jointly written a good book on trusts which should be in the hands of every trust and life insurance man in the United States. Gilbert Stephenson is the author of a book on trusts, and two men on the program today: Mr. J. L. Madden, who has written a book on "Trusts, Wills and Estates," and Mr. Sanborn, on "Business Life Insurance."

Trust men have awakened to the realization that life insurance is one of the greatest economic factors in the country. Last year there was written in the United States, life insurance in the sum of \$17,500,000,000. There is an aggregate of insurance in force today of \$80,000,000,000. Considerable is said about the great debt of the United States which is expected to be liquidated within fifty or sixty years. When we think of this vast fund of life insurance which must be liquidated by the life insurance companies, paid out by them to the beneficiaries within the next generation, our national debts seems to be of minor importance.

You saw the mechanics of getting a life insurance trust, demonstrated by Mr. Laferty and Mr. Mills on the platform yesterday. They dealt with the average insurance trust case that reaches your desk. However, there is a much wider field, and I believe in the course of a short time the life insurance companies will realize the extent of that field when they consider the development of the business life insurance. I don't mean corporate insurance, but business insurance. I hope Mr. Sanborn will develop that topic today. If I thought that he would not, I would be glad to go into that with you to the extent of my limited experience.

Need for Standardized Forms

WE are endeavoring to cooperate with the great organizations representing the underwriting of life insurance. There are four organizations: The Association of Life Insurance Presidents; the American Life Convention; the National Association of Life Underwriters, and the Association of Life Insurance Counsel. Our committee on Insurance Trusts has met with all but the Association of Life Insurance Presidents, in an endeavor to work out a plan, having for its common purpose, the conserving of life insurance proceeds.

At the meeting with the American Life Convention held in Chicago last January, attended by the President of that Association and its Secretary, who will address you today, and some of the ablest men in the organization, we discussed our various problems at length. The result of the discussion was that we decided to prepare a document which could be used both by the life insurance men and the trust men, showing how our organizations are working for a common purpose. A great many of us have had trouble in securing change of beneficiary forms from the companies and feel the need of a standard form which could be used by us. We worked that out in a way that I think will be satisfactory. The President appointed a committee to prepare a uniform change of beneficiary blank which it is thought the companies will agree to place in the hands of all the different financial organizations doing a trust business. The life insurance men felt that when a life insurance underwriter

went into an office, he must have something concrete to present to his prospect and one of those things should be a standard form of life insurance trust, and that some idea should be given the prospect about the cost of administering the trust.

For years, we have been endeavoring to agree upon standard forms of insurance trusts. This matter has been discussed with a great many of the trust men throughout the United States. Each lawyer of a trust company thinks his form is the best. We have adopted a form as a basis for discussion which is now under consideration. It was surprising that some of the best trust men in the United States have no objection to the form whatsoever and others object to every clause.

Proceeds Are "Consumed"—Not "Dissipated"

MONDAY we had a meeting with a committee representing the National Association of Life Underwriters. We again discussed our common problems. We think we have arrived at a point where we can work satisfactorily with them. They are keen to help us and we are very anxious to help them in the conservation of life insurance proceeds. The life companies for a number of years have been advocating writing policies under the mode of settlement option and not in a lump sum. The results have not been at all satisfactory to the companies. One of the life men representing the American Life Convention at our meeting with them, said he thought less than ten per cent of all business written was under the option plan, that ninety per cent represented lump sum payments.

We took over from our life insurance friends a statement to the effect that a great part of the money which was paid in lump sum to beneficiaries was dissipated in seven years. We thought it came from a reliable source and discussed it in presenting our case, but Mr. Abel, the President of the Franklin Life Insurance Company, has gone into the matter. His investigation shows that it is not entirely correct to say that insurance is dissipated in seven years. It has been suggested that we do not use the expression "dissipated," but that the money is "consumed," which we know to be a fact. The people of this country are underinsured today. We realize that, and it has been our duty to call the attention of our clients to the fact that human life values must be properly conserved. It is the duty of trust men, (and the trust man can do it more ably than a life insurance man), when presenting an insurance program to a man to indicate to him that he should be adequately insured and that that fund should be properly conserved.

The life insurance men, today, are building up a great business for the protection of the women and children of the future and that fund must be conserved and we must help them to conserve it.

Ways of Cooperating

TALKING about cooperation, there are many things that occur to us that will result in a very effective cooperation. A trust man must not endeavor to take

every insurance prospect who comes into his office and attempt to write a life insurance trust for him. There are many cases where a life insurance trust is not indicated, where the fund properly belongs with the life insurance company. In a case where a man has only one or two policies payable to his wife, it is better for that fund to remain with the life insurance company, but when there are a number of policies and there are women and children who must be taken care of, it may be best for the proceeds to be placed in one depository, such as a trust company or bank, where the fund can be managed and the income paid out from one place. I am convinced, however, that the business insurance properly belongs in a trust company. The fund should be handled through a trust company, the papers should be prepared by a competent lawyer and not in your own office. The agreements are complicated, intricate instruments, which should be prepared by a good lawyer.

The insurance men don't thoroughly understand life insurance trusts. Some of them told us, Monday, that there are a great many who do not thoroughly understand the mode of settlement options in their policies. It is our duty to educate those men along the line of trust functions. Some of the members of our Committee have done great work in that line. One of our men, Mr. John A. Reynolds, has been going around the country doing missionary work; he told me he addressed 132 different organizations, in as many cities, developing the trust idea. Mr. Mershon and Mr. McDouall have done a great deal of work along the same line. It is hoped that others will help wherever possible.

A great many joint meetings of life insurance men and trust men have been held throughout the United States during the past year; one series held down in the Carolinas fostered by that progressive trust man, Colonel Fries, was an outstanding event. Meetings held in Pittsburgh, Chicago, Detroit and New York, resulted in great benefit to both the life insurance men and the trust men.

The inclination on the part of some trust men, more on the part of the lawyers than others, to treat insurance men with aloofness, is a wrong spirit. The insurance man doesn't understand what you are offering, and he wants to sit down and talk the matter over. Some trust men, I am sorry to say, think that they haven't time to talk to insurance men. You must be patient and develop the idea that means so much not only to us and the insurance men but to the beneficiaries.

Cooperation can't be all on one side. The insurance trust business is peculiarly in the hands of the life underwriters to a large extent; they originate the business and send the business to us, but they are not going to

send the business to us if they feel that business sent into our office may be taken away from them. This feeling may be to some extent justified.

The Underwriter's Field

THERE is a point beyond which a trust company or a bank, in my opinion, should not go. The business of writing life insurance belongs peculiarly to life insurance underwriters and the conservation of the proceeds in certain cases properly belongs to the insurance companies, and in other cases to the trust companies, and neither should step beyond the confines of the other. The life underwriters feel that they have developed their business into a profession, which we can understand when we see the high class, high type men who are writing life insurance today; they do credit to any profession, they don't want you to pick on them.

There are many ways in which a financial institution can make money. Let's not pick on any one particular activity of an organization that is trying to work with us. Leave the insurance field to the life underwriter. It is only by the development of this cooperation by joint meetings, the trust men coming in with hands down, and showing a willingness to help by joint advertising of trust companies and life insurance companies, if that is possible (and I do think that it is possible) by having a page in a newspaper in each locality advertising our great joint service for the conservation of the wealth of the United States. If we can accomplish this, if we co-operate for the development of trust business, for the benefit of future generations, we shall have done our work ably and well.

CHAIRMAN DENIO: I am sure we all thank Judge Hennings for giving us the vision of this matter in the large. We must look at this problem with imagination and deal with it in the interests of the people of America and not in our own small selfish way. I think Judge Hennings has brought this out in splendid fashion, and I am sure it is a vision that we can take back home with us and develop into concrete results for our communities and for our banks.

The next speaker on the program is one who has done an outstanding job on insurance trusts in the city of Pittsburgh, and his enterprising company has done some unique things along those lines. He will tell us about, "A Trust Functions Course for Life Underwriters." Some of us may have tried to conduct such a course in a small way, but he is going to tell us about one that has been tried out successfully and in a very much larger way. Mr. Gwilym A. Price, Trust Officer of the Peoples Savings Bank and Trust Company, of Pittsburgh.

A Trust Functions Course for Life Underwriters

By GWILYM A. PRICE

Trust Officer, Peoples Savings & Trust Company, Pittsburgh, Pa.

IT WAS almost three years ago when my company, the Peoples Savings & Trust Company of Pittsburgh, gave its first dinner to a selected group of about two hundred life underwriters, launching at the same time a direct mail and advertising campaign for life insurance trusts. Prior to that time we had prepared and distributed a pamphlet or two on the subject of life insurance for inheritance tax and estate purposes, touching very generally on the subject of the life insurance trust, one of which attracted considerable attention in Pittsburgh and throughout the country generally, judging by the number of requests we received for copies.

The idea of giving such a dinner came as a direct result of the interchange of ideas at the Mid-Winter Conference, three years ago, when the life insurance trust and cooperation between insurance and trust companies generally, while not an entirely new subject, could be likened to a wee small infant in the nursery of a maternity hospital, possessing great possibilities only in the eyes of its proud parents. Many infants have been delivered to the Trust Company Division of the A. B. A. in these Mid-Winter clinics in New York City but not one of them can be compared with this sturdy youngster now standing firmly on his own feet and showing such great potential possibilities.

Our plan to organize and conduct a Trust Functions Course for Life Underwriters began to form during the year following this dinner as a result of the interest the life underwriters were showing in the life insurance trust idea and trust work. I received and accepted a number of invitations to talk before agency meetings of the different insurance companies and one thing nearly always impressed me—the underwriters' lively interest not only in the subject of insurance trusts but, in the broader field of trust work generally, i.e., our powers to make and responsibility for making investments, the probable rate of return, whether or not we could guarantee a fixed rate of income, the safety of the principal, wills, the intestate laws and many other similar topics.

In other words, the progressive, worth while life underwriter of the present day is imbued with the idea of serving his clients in a broad way, is not satisfied merely to sell an insurance policy but is content only when his client has arranged all of his affairs in the best possible way. Before he recommends the trust company to his clients he must be sold himself, he wants to be able to talk with some assurance about wills, the intestate laws, trusts, and how the trust companies conduct their business.

Course Sponsored by University

OUR ideas crystallized into action last summer and we decided to give the course. Several plans occurred to us, one being to issue invitations to a selected group of underwriters to meet with us in our own quarters, possibly for luncheon, once a week for an hour or two during the required period; another being to rent a small auditorium at the Chamber of Commerce or similar place and conduct the course entirely on our own; and the one we adopted finally, to recognize it as an educational effort and tie it up with one of the Universities conducting an evening school in the city. Perhaps either of the first two plans would have worked just as well as the one adopted but we rejected them because either might have been construed as a mere gesture or bid for favor, without a recognition of the main purpose, which was to give the underwriters a course of instruction for which their own general agents and home officers are beginning to feel the need and, indeed, in many cases are trying to fill by means of agency meetings, correspondence courses, etc. In considering the plan adopted we had the advantage of a precedent, in that the Pittsburgh Chapter of the American Institute of Banking for a number of years past has been giving all of its courses to bank and trust company officers and employees under the auspices and supervision of the University of Pittsburgh which conducts both a day and evening school of Accounting, Business and Commerce in the heart of the city. In some of the American Institute of Banking courses which are a part of the University curriculum, the University furnishes the instructor and gives proper credit for the course towards a degree, while in other subjects which are more special, the American Institute of Banking furnishes the instructor but uses the University rooms, equipment, office force, etc.

It naturally occurred to us, therefore, to enlist the aid of the University and secure the prestige of its cooperation in our undertaking. We broached the matter to the Dean of the Downtown School of Business, offering to pay the usual tuition fee per member, furnish the instructor and text. After submitting the matter to the University trustees the Dean informed us that they would be glad to cooperate as a joint enterprise, give us the use of their equipment, furnish desirable quarters, a catalogue, etc.

Announcement Made at a Dinner

OUR President, Mr. A. C. Robinson, wished to repeat the dinner for the life underwriters so we gave it about the middle of September and arranged

to announce the course at that meeting. I was out of the country, the evening of the dinner, with other Legionnaires visiting the scenes of former triumphs along the Paris boulevards and I therefore hesitate to give you second-hand all of the favorable comments I heard, both from our own officers and insurance men, about the principal talk of the evening by John A. Reynolds, of the Union Trust Company, Detroit, first because, as those lawyers among you will at once recognize, it is not the best evidence, and, secondly, I would not want him deluged with speaking invitations which would take him too frequently away from the big job he is doing in Detroit.

The usual trust advertising was placed around the various tables prior to the dinner but we kept back a catalogue of the University of Pittsburgh, outlining the course, until just prior to Mr. Robinson's introductory remarks, when they were distributed. We had Dean Lamphier, of the University, follow Mr. Reynolds on the program, particularly to stimulate interest in the course. Along with the University catalogue was a card to be filled out and signed by each underwriter who wished to enroll, giving his name, company and promising to attend at least seventy-five per cent of the classes, if selected. We announced that the class would be confined to fifty but if a sufficiently large enrollment was secured we would consider giving the course again during the second semester, commencing during the present month. The response of the underwriters was very gratifying, over one hundred out of slightly more than two hundred present enrolling. We held the first class early in October.

Now, as to the course itself, we outlined the subjects for fourteen separate evenings, which would carry us through the first semester of the University. The first evening period of the University is from 6:05 p. m. to 7:40 p. m. with a ten minute intermission at about 7:00 p. m. and we selected that period in order that the underwriters might have the major portion of their evening free. We also cut out the ten minute intermission and arranged to dismiss the class at 7:15. I might say at this point that we confined the course to those underwriters who were members of the Pittsburgh Life Underwriters Association and we thus secured the good will of that organization and were instrumental in adding a few new names to its roll.

We did not ourselves select the fifty persons for the first class but allowed the general agent to do so, just as we had allowed the general agent to designate the men or women from his agency who would fill the quota assigned to him for the dinner. We advised him of the names of the men from his agency who had signed the cards, and the number from his agency whom we could take in the first class and asked him to designate the ones to go. There were twelve general agents in the first class and some of the biggest producing underwriters in the city.

The Subjects Discussed

THE subjects discussed during the fourteen evenings, together with a brief résumé of the points covered are:

1. History of trust companies; trust powers in national banks; wills.

Under wills I stressed the need for making them, the harmful results of intestacy, the danger of home-made wills, the general rules and requirements surrounding their making in Pennsylvania, the selection of an executor and the ease with which they may be changed rather than the more involved legal subjects such as grounds for contesting, the various kinds of legacies and their lapse, abatement or ademption, the partial revocation of wills by subsequent marriage or birth of children, the rights of the surviving spouse, and the rule against perpetuities and statute of accumulations, all of which, however, were touched upon and in most of which they displayed a lively interest. I told them in the beginning I did not mind interruptions but welcomed them, provided they were on the subject in point, because they generally provoke discussions.

2. Pennsylvania intestate laws.

Our intestate laws are codified in one Act of 1917 and in presenting the subject I used an outline distributed by my company soon after the law's passage, distributing copies of it afterwards. It's a hard subject to present clearly so that the audience will understand and remember the main features you want them to recall. Try it sometime, yourselves.

3 and 4. Administration of estates.

We wanted them to understand in some detail just what a trust company accomplishes when it settles an important or involved estate so I took two evenings, or almost two because each of the subjects of wills and intestate laws overlapped a little, and covered this subject in some detail, outlining the steps in much the same manner as did the symposium presented to us at this conference last year, from the safekeeping and periodical examination of the will before death and its probate after death, to the final distribution of the estate. I spent time on subjects such as the powers of co-executors, the different forms of administration, the priority of claims, interest on legacies and when they are payable, and finally, so as to prepare them for the subject of business insurance later on, the handling of a partnership interest.

5. Taxation of an estate.

This included a discussion of the Pennsylvania Transfer Inheritance Tax, the Federal Estate Tax, the Pennsylvania Four Mills Personal Property Tax, Multiple Taxation by other states and the lessening of this evil by reciprocal laws now in force and about to be enacted. Just to illustrate what we tried to do for them in the course, at this point we distributed copies of a recent Act of Assembly in Pennsylvania relating to the Four Mills Personal Property Tax, which in substance may put the burden on the executor or administrator of an estate to show that the decedent made an honest return for the preceding five years, prescribing penalties, etc. None of them knew about the passage of the Act but as soon as they did one or two of the general agents, as a service to their clients, got out a bulletin giving a synopsis of the Act.

6. Estates of incompetents.

This lecture and discussion included our duties and responsibilities as guardian of minors, under appointment of the Orphans Court and as guardian of incompetents, spendthrifts, habitual drunkards or weak-minded persons and as committee of lunatics under appointment of the Court of Common Pleas.

7 and 8. Trusteeships under wills and agreements; rules against perpetuities and accumulations.

We took two evenings for these subjects, paying particular attention to the discretionary powers which may be given to the trustee, the investment and management of an estate, legal investments for trust funds, the necessity of distinguishing between principal and income, the respective rights of the life tenant and remainderman in and accounting for stock dividends, profit on sales of securities, the amortization of premiums on bonds, double profits, the co-mingling of trust assets with the assets of the trustee, statutory safeguards, and the safeguards imposed by trust companies themselves.

9. Status of life insurance under federal and state laws. Its place and value in settling an estate.

During the evening devoted to this subject we particularly considered the provisions of the Federal Estate Tax Law relating to insurance, the rulings of the Department on the same subject, important decisions such as the Frick estate case, the Federal income tax as it relates to insurance, and finally why clean-up insurance should be carried.

10. Personal insurance trusts.

This was largely their evening, so I varied the procedure somewhat and after distributing printed forms of a funded and an unfunded trust agreement, and briefly discussing a few provisions, I turned the evening over to them for discussion and questions. You know, gentlemen, that insurance underwriters are accustomed to doing most of the talking and are taught at their sales meetings to dominate the conversation, so I felt that the strain by this time must be getting terrific.

11. Business insurance as it relates to partnerships and close corporations.

This was one of the best evenings. During previous months I had been writing for and collecting sample forms of business insurance trust agreements from prominent trust companies in the principal centers, had spent considerable time perusing the Trust Company Service of Diamond Life Bulletins, the binder and booklets of National Service Publications, Inc., Mr. Sanborn's fine book on Business Life Insurance, and had worked on and closed a number of cases myself.

12. Safekeeping of customers' securities; escrows; assignee for benefit of creditors; equity receiverships; bankruptcy; duties and responsibilities as transfer agent and registrar.

This was not a particularly interesting evening to a group of insurance underwriters and I doubt if I shall

do much more than mention the fact that a trust company acts in such capacities when I reach that point with my next class.

13. Trust organization and administration.

Our auditing department prepared for me a complete set of forms showing the accounting for a model estate from the time of its inception and the preparation of an inventory to final distribution, including an inventory itself, entries in the general ledger, the securities sheets, mortgage department records, real estate department, etc., so after outlining very generally the organization of a trust department of a fair size, I explained the forms and then passed them around the class. This made an interesting evening out of what would otherwise likely have been a dull one.

14. Trust fees for various services.

Having left the sugar candy for the last, this subject needs no further comment.

In giving the lectures, I followed closely and was greatly helped by a set of notes prepared by me two or more years ago for use in teaching a course on trust functions to the Pittsburgh Chapter of the American Institute of Banking. I have a set of these notes with me today and if any of you are interested in securing a copy I would be glad to have you sign your name and address in this book which I will hand to the Secretary. Unfortunately, the notes were printed at the expense of the Pittsburgh Chapter of the American Institute of Banking and in common with other Chapters throughout the country our Chapter is always skating on thin ice financially. I have heretofore received numerous requests for the notes and have sent them out at my own expense, but if any considerable number of requests are received for them today I will have to ask you to send \$2.00 to the Pittsburgh Chapter in case you decide to keep them.

Some of you may be asking what all of the subjects mentioned above have to do with life insurance underwriters and their business or what possible good the life underwriters could receive from such a course as we have given them. Most of us will remember the attitude of the insurance man of ten or fifteen years ago when the average agent peddled insurance, sometimes begged it but certainly very seldom sold it on its merits. That attitude has been displaced during the past decade by real methods of salesmanship and the home offices and general agents of the various companies now have well-trained, well-organized selling forces. The underwriters have been thoroughly grounded in high pressure methods of salesmanship. The trend in the future will be to emphasize real education and training along other business lines, including our own subject of trust functions, as the basis of service to their clients. Training and education will be emphasized as against high pressure methods of salesmanship.

Some Concrete Results

WAS the course outlined above successful? I will let some figures answer that question. Out of the fifty members enrolled the attendance averaged

better than forty each evening. What were its concrete results? I don't know exactly, but I could cite you a number of instances such as occurred several weeks ago when one of the underwriters attending the class stopped in my office on Saturday morning and asked me if I would arrange to stay for a short time on Saturday afternoon and talk to a prospect he was bringing in. I did so and after answering the prospect's questions I had the pleasure of seeing the agent secure an application for a \$250,000 policy and I had the pleasure of receiving the data for a funded insurance trust of more than \$100,000 in securities, \$250,000 in insurance, a revocable voluntary trust for about \$300,000 and the wills of the prospect and his wife which would total about another \$200,000. I could give you other instances if we had the time.

Furthermore, during the period of the course we subscribed for a rather expensive advertising campaign consisting of eight pamphlets or folders to be mailed out with return cards at irregular intervals during the period from the 15th of last month until about the 15th of next June. With this campaign to be used in direct mail advertising we purchased the rights to a very excellent book to be used by the life underwriters themselves. We decided to revise our mailing list and, if possible, have the life underwriters of Pittsburgh themselves furnish names for half the list. We fixed the total list at 5,000 names and assigned 2,500 of them to the life underwriters. Their cooperation exceeded our expectations. We pointed out to them that the best prospect for life insurance is the man who already has some insurance and for the purpose of our campaign those with a substantial amount of insurance are the best prospects for more. I think much of our assistance in making up this mailing list came because of the good feeling which the course engendered.

Valuable Friendships Formed

WE have two trust solicitors who started to work for us actively last October and these men attended the classes. They made contacts and I made friends there who will be very valuable in the future. I see a constantly increasing number of life underwriters calling at the office with names of prospects to be interviewed and I am glad to say that a goodly proportion of them are members of the class.

In terms of new business put on our books we started to keep a record about October 15 when our personal solicitation with the two men before mentioned commenced. From that time until the present time about five and one-half millions of dollars in the form of life insurance trusts, one or two voluntary trusts and many wills, which we can trace directly to active solicitation and the work of this trust functions course, have been put on our books. Furthermore, during the next few months there will be another class of fifty underwriters coming along. If that means fifty more very active friends of trust companies generally—I don't expect them to confine their activities to my own company in particular—I will be content.

CHAIRMAN DENIO: I think that was a very stimulating and suggestive address, and I know that you are brimming over with concrete questions you would like to ask Mr. Price. He has consented to answer the questions and I hope you will feel free to ask them.

MR. LAFERTY (Union Trust Company, Cleveland, O.): Mr. Chairman, I would like to ask if the underwriter paid a fee, and if so, did he pay it to the University of Pittsburgh?

MR. PRICE: He did not; we paid the fee ourselves; the regular registration fee of ten dollars, with two dollars to the institute for the set of notes, making twelve dollars for each underwriter. We gladly subscribed that to advertising.

Preparation of the Mailing List

CHAIRMAN DENIO: Mr. Price, you touched on one subject that I think perhaps you might go into a little further. You made up a list of prospects with the help of the underwriters. What was the purpose of that list? Did you divide the list among the underwriters, or did they bring the lists in to you, or how was that feature operated?

MR. PRICE: We decided on a mailing list of 5,000 names and we tentatively assigned 2,500 of them to the life insurance agencies in the city. Our two trust solicitors called on the various general agents and presented the campaign to them as we proposed to put it on. The first day or so they took a representative of the advertising company with them to coach them in presenting the material but after that they handled the job alone. We showed them just what we were going to do. We explained to them what we had decided to do in the way of making up the list. First of all, we asked the general agent how many men he had in his organization who were really capable of handling the trust approach. Then we took these names and decided on about the basis of ten or fifteen names for every underwriter's name which was handled in to us. Then the underwriters themselves made up their lists and sent them into us through the general agent. Those names are on our list today—about 2500 of them. I might add one other suggestion about the course itself. If any of you are considering such a course as we put on in Pittsburgh, I would not want you to take my outline, as I gave it to you in a tentative way, and adopt it fully. As a matter of fact, I am now convinced that the course could be covered in ten evenings just as well as fourteen, but we learn from experience and it seemed to me in the beginning that fourteen or fifteen evenings would be necessary to cover all subjects as I wanted to cover them. I can see very easily where a number of evenings could be shortened and I feel quite confident that the course for the second group commencing on February 20th can be completed in about ten evenings.

CHAIRMAN DENIO: Thank you. Mr. Bailey, of Clarksville, Tennessee, has had some experience and can make some remarks upon these things, Mr. Mershon tells me. I would like very much to hear from him if he is here. He has done an outstanding job in his city.

Experience of a Tennessee Trust Company

MR. C. W. BAILEY (President First National Bank, Clarksville, Tenn.): We have had a rather interesting experience with the insurance trust. About two years or more ago, when participating in a program of the Financial Advertisers Association at Columbus, I came in contact with that very magnetic personality, John Reynolds. Then and there our trust company found its big brother in the Union Trust Company of Detroit. My experience with the life insurance trust has been a modification of the experience of that institution.

Shortly after I returned home, we had the conventional meeting of our local life underwriters. Mr. Reynolds came down and addressed our meeting. We paid his expenses, which we were very glad to do, and on a bad, rainy, snowy night, such as we sometimes have in the South, some forty or fifty of these local men gathered at our country club and we had dinner together. I don't know whether it was the beaten biscuit and the country ham or the program or what not, but they were all there.

After our dinner, we gathered around one of those delightful old log fires and we made a family circle, and standing in the middle of that family circle of fifty men, John Reynolds made a most interesting address to our people. It was the first introduction of the life insurance trust to Clarksville, a town of 10,000 people, situated in an agricultural community within a trade area where there are perhaps 50,000 people. We followed that soon after, by the usual program. We had those big, fine, full-page advertisements that had been published up there by our big brother. One day, as we prepared our advertisement for the paper—at least as we prepared our signature for the paper—there was just one corner of it down there we didn't have anything to put in, and it just seemed so natural and so easy to put, "Friend of the family," down there, and we sent a copy of that to John Reynolds and apologized to him for having done it. He wrote back that he rather liked it, so we used it some more.

During these past twelve months we have followed that procedure, the big monthly advertisement, and as each advertisement was published, there was distributed to the 1,000 prospects whose names had been given us by the insurance underwriters of our community, a set of leaflets or pamphlets with which there was a return card.

At first, results were a little disappointing, we didn't get quite as many of those cards as we thought ought to be coming back for the effort we put in it. As each month has gone by, the number of cards has increased and today they are coming in rather satisfactorily.

That was a year ago that that started. The day I left home, I think, we published a page advertisement and we issued the usual leaflet. We have written a number of insurance trusts. We have also written personal trusts, educational trusts, and some business trusts. Sometimes we might have gone very far wide of the mark had we not had something of the guiding hand of an older and more experienced organization. Our

results have been entirely satisfactory to us.

I give you these figures without the spirit of boast, but simply in keeping with the request that was made of me. I think our total ran for the twelve months around \$400,000. That seems small to some of you who write \$10,000,000, \$15,000,000, or perhaps \$20,000,000 of insurance trusts in a year. It seemed to me we had made but little progress, but at a return dinner which our insurance agents gave us a few months ago, those figures were taken by one of the insurance agents and compared in relation to the premiums paid in a much larger community, one of the outstanding insurance trust communities, and we found that we were thoroughly in line.

An Opening Wedge

BENEATH the plate glass on the top of my desk and beneath the plate glass on the top of every other desk of an executive officer of our organization there is a little card which we also got from our big brother, which reads, "I have made my will and I have made the Southern Trust Company the executor thereof. I suggest you do the same."

Time and time again men have taken their seats opposite me at my desk and looked down and read that and they have opened the way for me to come to their home or for them to come down there with me sometime or for some other member of our organization to go and talk with them about these things which so vitally affect their lives.

One of the first insurance trusts I wrote was my own. One of the first insurance trusts I sat in on the preparation of was that of the Vice President of our bank and our trust company. We didn't feel that we could go out into the community and ask the community to support a movement which we were sponsoring unless we had first demonstrated to that community that we believed in it. That is our experience with the insurance trusts.

Before I leave, I want to say this, as I have taken occasion to say on occasions past, a thought which I think should be at all times uppermost in our minds: The development of trust companies and trust departments throughout our country is in its infancy. A lot of new men are going into that sort of work. Not all of us who have served these many years as bankers are qualified to serve in the same capacity as trust officials. I speak particularly to those men who are in the rural communities. It is my hope that in the development of trust departments and of trust companies throughout the rural sections of the country, the same standards shall be maintained in the future that have existed in the past. Our belief is that there is just as good a future for trust company activities in country towns as there has been for country banks in the past. We believe that there is the same field open to them and we wonder if we who have been charged with the care of the property created during the lives of men are not charged with the same responsibility to provide for its proper care and disposition after death.

CHAIRMAN DENIO: I think you will all agree with me that Mr. Bailey feels very much at home with this

audience, just as he did with his group of underwriters who sat around the log fire on that memorable occasion. I am glad he said one thing, and I want to add one thing to it, and that is the appreciation that I know a lot of you men feel, as I do, of what John Reynolds has done and what Leslie McDouall has done for this movement in the trust departments of the country. I would like to ask both Mr. Reynolds and Mr. McDouall, if they are here, to step up before this audience and show themselves so that those of you who don't know them may have that privilege.

. . . Mr. Reynolds and Mr. McDouall came to the platform. . . . (Applause.)

Dangers of Procrastination

CHAIRMAN DENIO: I was very much interested in one thing that Mr. Price said, and that was about the last-minute wills. We had one interesting case in my own company of a director of that company who left an estate of several million dollars and who had neglected to make a will. He had had no wife and no children, but was survived by a brother. Under our Massachusetts laws, a brother, under those conditions, inherits all the property of his deceased brother if there are no parents living. This director had intended to name the Old Colony Trust Company his executor. He had had his will drawn ready for execution. He came downtown on a Saturday to execute it, but being a little particular in some respects, he wished to have a close friend witness that will. They called up the prospective witness and

found he had gone to Cape Cod for the week end and wouldn't be back before Monday. Accordingly, he thought he would wait until Monday before he executed his will, because he was very anxious to have this particular man witness it. Of course something happened; he died on Sunday night intestate, with his will drafted but unexecuted. His entire estate went to his brother, his only heir. It was one of the most dramatic cases I think I have ever seen, showing the danger of leaving the making of a will until the last minute.

The taking care of the insurance needs of a community has developed into a profession. The settlement of estates has progressed to the point where it is now a business. Just as the lawyer and the legal profession have developed specialists in various groups of the law—we have our patent lawyers and our corporation lawyers, and we have our trial lawyers and our probate lawyers—just so even in the insurance profession as it now exists there are specialists. Our next speaker is a specialist in a subject that is of tremendous interest to every bank doing a trust business. He is going to talk to us about business life insurance.

There has just come off the press a book which he has written on this subject entitled, "Business Life Insurance," which has been approved by the National Association of Life Underwriters and which, I am sure, will give us all a valuable handbook to use with regard to this interesting branch of insurance trusts. I am going to call upon Mr. Ralph Sanborn, who is a specialist in business life insurance here in New York City. He will address the meeting at this time. Mr. Sanborn.

Business Life Insurance

By RALPH SANBORN

Business Life Insurance Specialist, New York, N. Y.

MR. CHAIRMAN, Ladies and Gentlemen: I want to assure Judge Hennings that if I don't do what he wants me to do, I hope he will rise and finish the job. In the first place, he is very, very right in saying that the use of trust settlements for business life insurance offers a field that has hardly been touched. The average business man has no business life insurance consciousness. He is a man who has not had it brought home to him by his life insurance man and, naturally, owing to the trust companies' inactivity on the subject, has not had it brought to his attention by them.

If you wish to ask any questions when I am through, I shall be very glad to answer them. More than that, I should be very glad to make any appointment I can to meet any of you, or any group of you, to discuss the subject further.

I have an unbounded enthusiasm for the possibilities in this very large field and it may dominate what I have to say. In order to make sure that we are talking about the same thing, I jotted down this—it isn't exactly a definition, but it sort of identifies the subject: Business life insurance creates a cash reserve with which to meet

the financial readjustment necessitated by the loss of a vital human factor in a business.

What Business Insurance Provides

BUSINESS life insurance can provide what I choose to call direct compensation, credit reinforcement and a liquidation fund for a corporation, a partnership or a proprietorship. A little rapid calculation will reveal the fact that you have got nine distinct needs there, three for each type of business organization. My idea of direct compensation is a financial return, in so far as it is possible to estimate it, to a corporation or a partnership or a proprietorship, for the loss of a man, his services, his brain-power, what you will. It is direct compensation to the treasury of that business presumably to start them on their way to readjustment in the organization.

The liquidation fund is more or less self-explanatory. If you are retiring an interest or winding up a business, wherever it is necessary to arrange for the purchase of an interest, or the passing of an interest for a considera-

tion, you can use, of course, the trust agreement in properly executing the wishes of the people involved.

Credit reinforcement is the meeting of a known or a supposed need for credit support in the event of a death, in the business, of a man upon whom the credit is based, or the group of men upon whom the credit is based. A man may sign single-name paper or corporation paper and be the only individual responsible for the welfare of that business.

I want to say a few words about the classification called proprietorships. It is a very large field that has not been touched by the life insurance man and you have naturally derived no benefit from that source. The proprietor is the man who needs life insurance protection and subsequently a trust settlement of those proceeds, more, I think, than either the corporation or the partnership. The name indicates the fact that it is a one-man organization such as the old Wanamaker institution, or even the professional man like the actor, the accountant, the doctor, or the lawyer.

I repeat that I have listed the nine needs, three under each the corporation, the partnership and the proprietorship. That is your field. It is not restricted to the settlement of an interest or the transfer of an interest in the event of death. Every trust officer can sell the idea of trustee settlement of any form of business life insurance proceeds so far as it can be done under the law. I stress that because the average business life insurance case is not one of perpetual control of funds. There may be ways of doing that, but my conception of it is the transfer of those funds into whatever channels are desired by the parties interested. Your work is not of such a lasting nature and, naturally, the remuneration to the trust department is not of such duration but much work can be done by the trust officer in bringing properly the business life insurance idea to the business man. The field is large and has hardly been touched.

I want to call to your attention a case in New York City. Henry Reinhardt, a very famous art dealer, died in 1921. He was quite successful and everybody had an inflated idea of what he was worth. The Times in reviewing the probating of his estate said, "The firm, it was set forth, had \$107,000 in cash, and while the stock of paintings was carried at a book value of \$210,000, it was declared that they were actually worth less than that sum because of depressed business conditions, which were particularly acute in the art business."

After Mr. Reinhardt's death, it was reported that creditors began to press for payment and the estate was faced with the problem of contributing towards the liquidating of the debts. Subsequently, a settlement was made with bank creditors on the basis of fifty cents on the dollar and the other creditors accepted twenty-five cents. The business was then completely reorganized. There was some life insurance in the estate but it was really an infinitesimal amount. You could probably give me case after case where you know conditions would have been better if life insurance had been payable to the business directly or indirectly.

I want to bring out this point, the trust officer knows his trust and the life insurance man is supposed to know his life insurance policies, but have you ever considered

how hard a job it is for a life insurance man to sell the trust idea to a client, either during the sale or after?

A Good Approach

I ASK for your consideration of that problem, to see if, as we go down through the subject, we can't figure out some way to do a better job of it. But, at the same time, I don't want to sell trusts as such and I don't think that you want to sell life insurance as such. In connection with business life insurance you can drive home your point easier on a business proposition than you can on a personal proposition. I don't mean to seem to be telling you your business, not that; I am basing the statement on my experience in the field with business men and discussing with them their business problems. Most business men will open like a flower on the subject of their business. They close tight when you are talking personal affairs with them. They just won't open up. Frankly, I don't want to give away my state secrets or my methods, because I don't know where I might run across one of you, but my idea is that there is a personal situation there as well as a business life insurance situation. I go around through the business to get what I want on a personal discussion, after he has tied it up for me. I offer that to you, because I think you can do the same thing.

More than that, you are talking business life insurance to be distributed on the basis of a trust agreement. You are talking something which to him and his associates should be very agreeable because of the fact that he wants to get away from the inevitable problem of striking a satisfactory agreement with the survivor. Sometimes they think they can do it themselves, but they very seldom are able to do it during their lifetime, so why should they expect things will suddenly change when one of them dies? I will come back to that later on a different basis, pointing out that you are naturally inclined to think of the trust settlement of life insurance proceeds on the basis of a personal affair.

I am going to ask the men in this room, the trust officers, who have participated in the execution of a business life insurance trust agreement to raise their hands. (A few raised their hands). Well, there are more than I thought there would be.

Five Selling Points

HERE, gentlemen, are five of my ideas as to what you have to sell. You can undoubtedly add to them or dispute them. This is my list of your selling points. In the first place, you contribute a very welcome impersonality to the adjustment of a business and you maintain the impersonality. I feel that where you have widows and associates to deal with, who may wonder why it isn't done thus and so, the trust company acts as a sort of a buffer between the beneficiaries of the estate and the concern.

Second, you can maintain an impartiality in the transaction. Impartiality to all interests, and that includes the corporation, if it be one, as an entity. The beneficiaries have interests, the corporation has interests, which must be protected.

Third, your experience and equipment make it possible for you to execute any instructions with desirable dispatch.

Fourth, you are able to give the survivors who are settling their business sound advice. They may avail themselves of your judgment and also of your knowledge of the business, presuming that the account has been in your bank or that you have had repeated conferences with them. Don't overlook the fact that in many cases, out of your business life insurance settlements, your beneficiaries will have participated in the discussion at the inception of the agreement. That is not so often the case in the settlement of personal proceeds. Let your beneficiaries know just what is meant when the agreement is drawn up.

Fifth, I consider it, for the services rendered, an infinitesimal expense, so infinitesimal that there is hardly any reason for mentioning it.

There you have five selling arguments. I would like to get all of your others, as you probably will be able to give them to me, to add to the list. There are plenty of selling arguments.

Value of Business Insurance to a Trust Company

I HAVE one or two ideas of what this business means to you and your companies. The activity on business life insurance is a little bit different from that of personal insurance. In the first place, there is that transitory business for a trust department in the adjustment of these affairs. It gives you a chance, in meeting these men in the settlement of a business agreement, to find out a little bit more about their personal affairs than you might be in a position to ask them had they not come in to discuss business life insurance trusts with you. They might have no other affiliation with a bank, and you can get that information.

It means the perpetuation of a good account for a bank if the business life insurance proceeds are to reinforce credit. Frankly, I ask you, why should your new business department go out rushing for new accounts, doing their best to snare them, only to have the credit department step in and call a loan in the event of a death, à la Reinhardt, and disrupt the business!

It is fine for the credit department to have complete protection but how about the business? The business is not secured; the business may meet the obligation after you have scuttled the inventory to the extent of getting good assets or to the extent of paying the bank. But how about the business? Has it got to close its doors? Is your new business department going to see a nice account it worked on vanish into thin air because somebody comes in and buys the business and doesn't care where it goes? That seems to me to be a point worth considering.

If the business is closed up, it may be not only the business account that you lose but the associated accounts as well.

Summarizing, because I can't go through the entire subject as completely as I would like to and perhaps as you would like me to, I remember, gentlemen, that we

life insurance men are more or less peripatetic sowers of the seed and we don't always get a chance to go back and nurture the plant which we have sown. You have a much better chance to do it, especially if it is mentioned to you, or if we get the man to mention it to you. You have a splendid chance, I think, along with ourselves, of making the whole thing yield a profit to you and a profit to everybody involved, including the business, the business man and all those people dependent for a livelihood upon that business which they want to see protected. Thank you.

CHAIRMAN DENIO: Mr. Sanborn has given us some concrete suggestions in regard to this very interesting development of our business. I know the experience of my company has been the same as yours, that if we get a chance to go over a man's business life insurance, or even his personal insurance, it leads into the eventual bringing in of the executorship, bank accounts and a complete survey of his personal problem as an entirety in the settlement of his estate. After all, that is the thing that is to be considered. It is not a question of whether we get any business out of it or whether we don't. It may or may not call for our services. The chances are that it will. It is a problem that we are striving to solve and it is not wholly a new business venture.

Mr. Sanborn has, of course, only sketched very generally the things that are in his mind and are put forth more at length in his book. As Judge Hennings said, this is the big field in insurance trust business. The amounts of insurance are large, and they are very important both to the client and to our banks. The meeting is now open for discussion.

Disposition of Proceeds

A DELEGATE: I would like to know in what percentage of cases of business trusts, the trust agreement provides that the proceeds of the settlement, the money going to the widow for the interest of the deceased, be continued in trust, that is in how many cases is it simply taken away by her?

CHAIRMAN DENIO: I can say for my own company that I don't remember a single business insurance trust that we have where the funds have been distributed outright to the family in any manner. Every one has been continued in trust. Of course, where the trust is for credit purposes, there is an outright distribution for the cleaning up of the debts of the corporation. I would like to hear some other expressions about that from men who have had some experience.

MR. HENRY V. ANDREWS (Trust Officer, First National Bank, Boston, Mass.): It seems to me, Mr. Chairman, there is an ideal situation for a further trust between the widow and the trust company. We have worked that out in some cases.

CHAIRMAN DENIO: Have most of your cases of business insurance trust retained the money with your bank as trustee?

MR. ANDREWS: We make that effort. We have had occasions where we have created an additional trust between the widow and the bank.

CHAIRMAN DENIO: Where the proceeds have been

paid outright to the widow you have made a further trust, under those conditions?

MR. ANDREWS: Yes.

MR. BENJAMIN E. LULL (Security Trust Company, Rochester, N. Y.): Mr. Sanborn, do not the majority of business trusts provide that the proceeds of the policies shall be used for the purpose of the deceased partner's share or the deceased stockholder's share in the case of corporations? Isn't that the usual purpose of the business insurance trust, except in the case of a proprietorship?

MR. SANBORN: Yes, Mr. Lull, that is correct. It seems that the life insurance man, as well as the trust officer has stressed the idea that that is the only way the business life insurance trust can be used, not that it is impossible to use it any other way, but that is the only way it has been used. My contention is that that is one of nine ways, or three out of nine ways—that is, a liquidation of an interest in a partnership, proprietorship or corporation. I contend that you have got the direct compensation and the credit reinforcement situation in any of them, corporations, partnerships or proprietorships. I may be wrong. I am hoping to learn far more this morning than you have learned in this discussion, because it has been hard to get concrete information on trusts.

Payment of Premiums

MR. LULL: Isn't the premium usually paid by the individual? In the case of a corporation, it would have to be paid by an individual, would it not? Supposing there were a few small stockholders who did not have the controlling interest, in that case the premium would have to be paid by the parties of the agreement, by the individual, rather than out of the earnings of the corporation. If the individual pays the premium, isn't it his estate that should benefit from the proceeds of the insurance, rather than the corporation group or the partnership group, unless there be some adjustment with his estate on the premiums that have been paid?

MR. SANBORN: Well, you are involving me somewhat in a technical discussion that I would have to amplify too much in order to give you what you want, because when you sit down you need a great many facts, I find, to determine the proper method of premium payment in a business case. It depends on who the proceeds are for, who is intended to benefit by them, and other contributing factors, such as the laws that might be violated by the payment of premiums or the receipt of the proceeds, etc.

JUDGE HENNINGS: Answering Mr. Lull's question I would say that the premium upon the lives of the different partners must be paid by the other partners. The premium cannot be paid by the person insured. There are any number of so-called closed corporations and partnerships in all communities, whether large or small, that represent a big investment which, under the laws of most states, in cases of partnership, becomes of little value because a partnership is dissolved upon the death of one partner and must go through partnership administration unless otherwise provided.

The value of the partnership interests, upon the death

of the partner, I will not say is dissipated, but becomes of questionable value. It is possible in a partnership agreement to provide for the continuation of the partnership notwithstanding the death of a partner. In that way the payment of the insurance proceeds for the purpose of purchasing the deceased partner's interest from the widow or his estate, stabilizes that business, continues the business in force and does not injure its credit. That is also true of the closed corporation in which there are three or four stockholders, the business goes on, the fund may be used for the purpose of retiring the stock, or it may be used for the purpose of passing the stock over to the survivors. The business continues as a going concern and the community is not harmed. We have not done a great deal of the business, but I think the field should be developed particularly in the smaller communities where the man who is worth \$50,000 or \$100,000 is very hard to find, but there are ten times as many men whose business is worth that amount or who is carrying life insurance in amounts of \$50,000 to \$100,000.

MR. LAFERTY: Mr. Sanborn, in the case of a proprietorship, especially the professional man—a doctor, an attorney, an advertising agent, etc., do you feel his problem can be segregated from the rest of the problems and handled separately from the problem of providing for his family?

MR. SANBORN: I contend, that you can hit a man easier by discussing his business, whether it be the stage or the hospital or whatever it may be. You can get his attention that way. You don't need to segregate it; if it seems to you at first or second glance that you can incorporate the whole thing in one, do it. Why separate it?

Basis of Fees

MR. OLIVER J. NIEBEL (Commerce Trust Company, Kansas City, Mo.): I should like to ask the trust men here how they base their charges on a partnership or corporation case in which the stock is not actually deposited with the bank, but where it is merely a case of holding policies and at the death of one of the parties interested, making collection and carrying out the agreement. We have thought about that considerably because if everything ran along very smoothly, of course, we wouldn't do very much and the fee could be very reasonable, but supposing that litigation arose and it would take several months or may be years before the thing was settled. Can there be a definite compensation put into the agreement?

CHAIRMAN DENIO: I think Judge Hennings, who has studied this thing perhaps more than anybody else, would be the best man to answer that question, if anybody here can.

JUDGE HENNINGS: I do not claim to have any special knowledge about this. We have written comparatively few business trusts. With one exception the funds are held in trust after the policy matures. In one case we have a provision that a part of the fund is to be used for the education of boys living in a province in Spain. The question of fees differs as much as the practices in

the different states. In this particular instance we made a charge of two per cent on the amount disbursed. Of course, in the case of the continuing trusts, we make our usual charge for handling the trust.

If I were in the control of a life insurance company, I would do, with all of my important men, what they are doing in Pittsburgh, I would educate them upon the development of the business trust.

CHAIRMAN DENIO: I do not know what the rules are in other jurisdictions, but in the Commonwealth of Massachusetts you can contract for any compensation that is agreed upon for these trust services or any services, and in the absence of specific arrangements we have a very delightful, and very satisfactory rule that a trustee is entitled to a reasonable compensation. We try to get it.

I think it has a good deal to recommend it in favor of a fixed fee, as long as all your banks have substantially the same ideas as to what is a reasonable basis.

Stock Elimination Plan

DELEGATE: There is one point in connection with business trusts which has bothered us considerably and I don't think I have ever heard it discussed. For instance, in the typical case of a stock elimination plan, a man makes an agreement with the other stockholders to sell his stock for a certain amount, the insurance to be applied against his loss as determined after his death. There are two possibilities; one is suggested by the question asked a short time ago as to where those proceeds are payable, whether they are continued in trust for the family or paid to the family or paid to the estate. If the transaction is such that the money is payable to the family or continued in trust, it is eliminated from the estate and the transaction appears to be one between the stockholder himself and the buyer. He has sold his stock the date he makes the agreement or he has requested his trustee to sell this stock after his death at the particular price and under the terms of that agreement. If he provides for a transaction between his estate and the purchaser after his death, the transaction is between his estate and the purchaser and the insurance money is merely applied in the consummation of that sale between those two parties.

That raises this question: Does the sale under either of those plans take place as of the date of the agreement and the consummation postponed until after his death, or is it merely an option to buy after his death, the option to be exercised and consummated? The answer to that question may make considerable difference. If the sale

takes place at the date of the agreement, it is very possible the Federal Government may come in and say that the sale price is the price which he actually received, and the agreement being made in 1927, his income tax should have been computed on the value of that sale, less the cost to him, and the income tax paid on the difference. If the sale is consummated after his death, he gets the benefit of the estate tax value for that interest which most certainly must be the sale price, because it is determined as of the same date, and he pays no income tax but pays the estate tax that in most cases is less. I am wondering whether anyone has had that question before him and has any ideas as to the method of making the agreement, whether to fix the date of the transaction before or after death, what the results of either might be?

CHAIRMAN DENIO: That is a very interesting question that has occurred to a good many who have been working on these matters. I think it is a distinctly legal one as distinguished from an insurance question and is a part of the problem which must be put up to the counsel for the man who is developing this business trust, it seems to me. If you will see me after the meeting, I will refer you to two or three prominent lawyers and vice-presidents and bankers here who will be glad to discuss that with you. I think it is a pretty technical legal discussion to get into before the general meeting here, and with your permission I would like to treat it that way. Are there more questions?

MR. SANBORN: I just want to repeat the offer that I made during my talk, that if any of you want to discuss the subject in greater detail, I shall be only too glad to make a convenient appointment. My name is in the telephone book.

CHAIRMAN DENIO: Our next subject is going to be discussed by the officer of one of our great insurance companies, the Third Vice-President of the Metropolitan Life Insurance Company. I don't know whether it is a habit of these insurance men, but they seem to write books. The fine thing about it is that they are all practical and useful books. The next speaker has written one entitled, "Wills, Estates and Trusts," and he has developed that subject more at length with regard to insurance in relation to those estates. He is going to talk to us for a few minutes about it, and I think he will have some concrete suggestions for us that will be helpful to us all and at least give us the insurance official's point of view and the point of view of the company itself with regard to insurance in relation to trusts. I will call on Mr. James L. Madden, the Third Vice-President of the Metropolitan Life Insurance Company.



Wills, Trusts and Estates in Relation to Life Insurance

By JAMES L. MADDEN

Third Vice-President, Metropolitan Life Insurance Company, New York, N. Y.

LIFE insurance plays a most important and commendable part in the creation of estates. It may be compared to a callable bond, the principal of which automatically becomes due and payable on the death of the insured. The cost of this bond is frequently only about three percent, payable annually, of the principal. It is interesting to compare this easy method of accumulating money for the use of the policyholder's estate with the situation that sometimes arises when dependents, not receiving an insurance fund, find it necessary to borrow. In this case they pay about six percent interest annually and have to repay the principal ultimately. It is not surprising therefore to find the American people thorough believers in life insurance, as is evident from the eighty-seven billion dollars in force.

The institution of life insurance today is paying more money to live policyholders than to beneficiaries. Based upon an investigation covering life insurance disbursements from 1920 through 1925, it was found that fifty-six percent of the total payments made by life insurance companies went to living policyholders, whereas only forty-four percent was paid to beneficiaries. It is significant that life insurance companies today are life insurance companies in fact, and not death insurance companies, as they were once regarded. Today we find the life insurance companies helping the policyholders to be economically independent during their productive years as well as during old age. They offer to help a policyholder to conserve the principal of matured contracts through certain optional settlements which will be discussed later. Trust companies, too, are assisting policyholders to accomplish the same results through various forms of living trusts.

A Misleading Statement

A GREAT deal has been said and printed about life insurance estates being dissipated during seven years. This statement is a misleading one. The average amount of ordinary life insurance in force is in the neighborhood of \$2600 and it is evident that this sum will not as a rule last seven years. Life insurance in the vast majority of instances does accomplish what the policyholder intended, namely, to tide the beneficiaries over the period of adjustment, so while it is no doubt spent, it is not fair to say that it is dissipated. Of course, there are instances of the dissipation of insurance funds by beneficiaries, but it is doubtful if they assume the proportions frequently believed. This does not mean that every safeguard should not be thrown around the distribution of insurance proceeds to beneficiaries by the insurance companies and the trust companies, but it does seem regrettable that so much emphasis is put upon the

wastage of life insurance funds, when upon reflection it must be recognized that these funds in the main accomplish their purposes.

We all recognize the conflicts arising from wills. Often we read about cases where these documents are set aside by the courts for various legal reasons. A testator desirous of having his property go to definite beneficiaries therefore should be very careful about the form and contents of his will. Policyholders who designate a named beneficiary need have no fear of the proceeds of their policy going to any one other than the person desired. Furthermore, they should have no concern over court contests and attendant expenses, in fact insurance estates of this nature receive some forms of beneficial treatment, such as certain tax exemptions. Frequently the estate is named by a policyholder as beneficiary. In these cases the money becomes part of the estate and some of the benefits which otherwise would be enjoyed if a named beneficiary had been designated are lost. If this policyholder should die intestate the distribution of the life insurance funds would be merged with the rest of the estate and distributed in accordance with the intestacy laws of the state. Therefore, certain favorable taxation treatment is lost. It is plain that the manner of designating the beneficiary might have a very important bearing upon the distribution of the proceeds of the estate.

Adjusting the Life Insurance Program

THE agent is the key to the proper adjustment of the life insurance program to the needs of the policyholder and beneficiary. In the development of any such program he should consider the circumstances of the policyholder and suggest the proper type of contract or contracts to meet the policyholder's needs, as well as the amount necessary to accomplish the desired objectives. But he has another function, and that is to prepare a plan for the distribution of the proceeds of the life insurance contract so that they will fully accomplish for the beneficiary what the policyholder intends. The insurance companies pay the agents commissions for these services and when an agent only thinks of the amount of ordinary insurance and fails to consider the distribution thereof, he is not arranging for the full service for which the life insurance contract provides. Of course, the circumstances surrounding sales are sometimes such that it is not advisable to discuss optional forms of settlement, when this can be done, though the attention of the policyholder will be directed towards the possible income from the amount of life insurance rather than the face value of the policy itself. This might well tend toward the purchase of larger amounts of life insurance.

The investment service of the institution of life insurance which is available to holders of matured life insurance policies or beneficiaries is very broad. Comparatively few policyholders could afford to employ such technical financial experts as the insurance companies have on their regular staffs. The primary consideration with these men is first and foremost, security, and next, stability of income. In order to achieve these objectives wide diversification of investments, geographical or otherwise, is important. Then, too, in the event of difficulty with investments, the insurance companies are able to safeguard effectively their policyholders' interests and in the exceptional cases, when there are losses, these are so small in comparison with the total amount of investments, that they are absorbed without any of the policyholders feeling them. So we find this investment service available to help in the maintenance of insurance estates without additional cost.

Insurance Company Method of Distributing Estates

JUST how the distribution of an insurance estate may be made most intelligently is a question which every policyholder might well consider if he wants to be reasonably certain that the beneficiary will receive, after his death, the maximum amount of protection possible from the total value of his estate. The policyholder holds the answer because he knows of the ability and habits of the beneficiary and the financial demands which will have to be met, as well as his hopes and ambitions for his dependents and the probable amount of money necessary to accomplish them.

The insurance companies' optional settlement plans provide simple methods for caring for beneficiaries' needs which are broad enough for the vast majority of insurance estates. The trust companies also have very competent facilities for caring for those insurance estates which cannot be properly served by the institution of life insurance. The insurance service arises out of the contractual relationship, whereas the life insurance trust is as its name implies, a trust function. The optional settlement plans referred to in life insurance policies are the *Interest*, the *Installment* and *Life Income* methods of payment.

The interest method provides for the maintenance of the principal for a given period of time or during the life of the primary beneficiary after which it is payable to a contingent beneficiary. Prior to this time the primary beneficiary receives the interest payments. Under the installment method the principal and interest are paid to the beneficiary in equal installments over a given period of time or in specified amounts as long as the principal lasts. The life income method provides the beneficiary with an income for life, and with a guaranteed number of payments. In the event the beneficiary dies before a given number of years, the difference between the amount paid and the amount guaranteed to be paid will be given to the estate. Of course, this life income form of optional settlement is a life insurance function which trust companies are not equipped to render.

Unless an optional settlement plan is requested by the

policyholder, the face value of the life insurance policy will be paid in a lump sum. There has been some misunderstanding about this. As indicated previously, it is true that from time to time lump sum payments have been dissipated, but it is likewise true that in almost every estate some lump sum payment is absolutely necessary in order to take care of the expenses incidental to the death of the policyholder, to pay his outstanding indebtedness and to tide the beneficiary and dependents over the period of adjustment. The lump sum payment in the main undoubtedly accomplishes these objectives and is extremely valuable in many other instances.

There is an increasing amount of interest among policyholders in the proper method of distributing their insurance estates. Investigation discloses that in 1920 about 2.85% of all policies issued were on an optional settlement basis; while in 1925 about 7.37% of the Ordinary policies issued carried optional settlement provisions. The installment method seems to be most popular, while the interest method ranks second. There is a very definite trend toward the combination of two or more of these optional settlement methods and it is to be hoped that in advising with policyholders life insurance agents and trust company officers will emphasize the importance of usually having part of the life insurance proceeds payable in a lump sum.

Through the lump sum payment or optional settlement plans and combinations thereof, the institution of life insurance offers a guaranteed investment service for beneficiaries which permits of wide flexibility. These optional settlement plans are scrutinized carefully, to be sure that they fall within the province of the life insurance companies which have no desire to go into the trust company business. Accordingly it is not unusual for agents or policyholders to be told that a given proposed program should be referred to a trust company for administration.

Trust Company Method of Distribution

IT is not my purpose to review at this time the numerous benefits of trust company administration of estates. These are only too well known to you. Insofar as insurance estates are concerned, you have a big opportunity in assisting beneficiaries through the administration of estate programs which require the exercise of discretion or judgment or certain definite use or application of the insurance funds in whole or in part. Then, too, there is an unusually good opportunity for trust company service in administering complicated insurance estates and executing the terms of agreements involving partnership or corporation insurance or in supervising the expenditure of funds designated for charitable purposes. The large sums of money being paid to living policyholders who do not wish to avail themselves of one of the optional settlement plans offered by the insurance company to help maintain intact their accumulated insurance savings, likewise present to the trust company a broad field for living trusts.

The keynote of trust company administration of insurance estates is personal, individual service. The importance of this cannot be over-emphasized. Through this personal service, the beneficiary often receives coun-

sel which is worth more than the total fee which is based usually upon the amount of money involved in the estate.

There can be nothing but praise for the system of insurance trusts when properly applied. It would be interesting though if some steps were taken toward systematically studying the insurance trusts actually being made, their purposes, the cost of procuring them and ultimately of administering them. If the Insurance Trust Committee of the Trust Company Division of the American Bankers Association saw fit to collect this information systematically, it would no doubt be helpful to trust companies rendering this service and certainly would be of value to life underwriters because they would then have a more definite idea of how insurance trusts are being used by a substantial number of policyholders. This would enable them to serve better their policyholders.

The services of insurance companies and trust companies for the benefit of beneficiaries supplement each other. While the insurance companies can take care of the majority of beneficiaries by optional settlement plans, the trust companies' service is absolutely necessary in

cases where personal service is a factor. While the percentage of the latter may be relatively small, the volume of money represented by this percentage will undoubtedly be substantial. The further growth of both services for beneficiaries will depend very largely on the increasing appreciation by policyholders of the importance of studying the optional settlement plans of their insurance contracts and definitely planning to program properly the distribution of their insurance estates for the benefit of their beneficiaries. The more policyholders do this, the more trust company service will be appreciated and used. If both insurance companies and trust companies work toward this better understanding by policyholders, as well as a more thorough understanding of each other's services and facilities, the greater will be the opportunity for an even more extensive service for the public welfare.

CHAIRMAN DENIO: Mr. Claris Adams, Secretary and General Counsel of the American Life Convention, of St. Louis, is here to address us on "Trusteeing Life Insurance—From the Standpoint of the Insurance Company." Mr. Adams.

Trusteeing Life Insurance—From the Standpoint of the Insurance Company

By CLARIS ADAMS

Secretary and General Counsel, American Life Convention, St. Louis, Mo.

MR. CHAIRMAN and Gentlemen: The life insurance companies of this country are thoroughly in sympathy with the life insurance trust program and are thoroughly ready to cooperate.

The advantages to both institutions from real cooperation between life insurance companies and trust companies are so evident that it does not demand argument. The business of one is creating estates; the business of the other is conserving them. We solve successive steps in the same problem, we perform separate functions of the same process. We provide supplementary and not competitive services. The community of interest, it seems to me, is obvious. The life insurance trust idea is not going to cover the life insurance field, but it is perhaps the most fruitful field of further development before both the life insurance companies and the trust companies of America. It is a fine thing for us to get together on this program. My organization has had the privilege of having John Mechem, of Chicago, and John Reynolds, of Detroit, discuss this subject before the life insurance presidents of the country. Recently, we had a meeting of a committee representing my organization and a committee representing your organization, for the purpose of preparing a program of cooperation, defining the field of life insurance trusts, recommending its uses and its utilities and attempting in

every mechanical way to reduce the friction in the actual process.

The Future Outlook

IT is true that life insurance is just in its infancy in America. Today this generation has provided for the next an endowment of almost a hundred billion dollars. Yet, as Mr. Madden pointed out, the average life insurance policy only represents \$2600 to the beneficiary. One of the great advantages of this cooperation is that when the institution of finance recommends life insurance, there is going to be more life insurance sold in this country, and when more life insurance is sold, there are going to be more of those larger estates to administer which it will be profitable for you to handle.

It seems to me that this program of cooperation is one of great promise and it is one that we must keep at day after day until we understand your problems and you understand our problems so that together we may not only profit for our own institutions, but may better serve the American public and contribute to the general good in promoting public thrift and conserving national wealth.

CHAIRMAN DENIO: That closes our morning program.

(Adjournment)

FOURTH SESSION

Wednesday Afternoon, February 15, 1928

Mr. James H. Perkins, Vice-President of the Trust Company Division of the American Bankers Association and President of the Farmers' Loan and Trust Company, New York, presiding.

CHAIRMAN PERKINS: Gentlemen, the duty of a presiding officer is to get things started promptly and get them through promptly, so I shall proceed along that line and call on the first speaker of the afternoon, Mr. Myrick, President of the National Association of Life Underwriters, who will speak of the insurance trust situation from the standpoint of the underwriter. Mr. Myrick.

Trusteeing Life Insurance From the Standpoint of the Underwriter

By JULIAN S. MYRICK

President, National Association of Life Underwriters, New York, N. Y.

MR. CHAIRMAN and Gentlemen: As President of the National Association of Life Underwriters I was recently invited to be present at the meeting of the Association of Life Insurance Presidents and among the remarks that I made I would like to quote the following comment concerning the cooperation with banks and trust companies:

"Until recent years, trust companies and banks with trust departments had neglected the cultivation of insurance trusts. Most, if not all, of the trust work of policies was taken care of by the life insurance companies through the modes of settlement in the policy contracts. We must realize that these modes of settlement still furnish a wonderfully safe way to distribute, over a period of years, an insurance estate with small chance of loss or depreciation. We must, however, recognize the fine cooperation now being given by the banks and trust companies in advertising the values and usages of life insurance.

"This year has established a new high-water mark for the combination of life insurance, trust company, and legal service in cooperation for the creation of life insurance trusts. Trust officers with experience and vision recognize that the best results follow limiting trust service to trust matters and not seeking to share in life insurance commissions or to give technical life insurance or legal advice.

"We deplore the licensing of banks or trust companies or their officers or employees as such to receive life insurance commissions. This practice should be stopped before it becomes widespread, otherwise it will tend to reduce and tear down your agency forces."

Work of Trust Companies Appreciated

ON behalf of the organization which I represent, I want to say how much we all appreciate the very fine work which is being done by the banks and trust companies who have broad vision, to help educate the in-

suring public as to the necessity of their having the proper amount of insurance on their lives and where it is feasible, to have the proceeds of the policies trustee so that the beneficiaries will receive the proper investment advice and protection of these funds.

I would also like to record our appreciation of the very splendid work which Mr. Mershon has been doing in bringing our points of view closer together as well as assisting to spread the idea of the value to the insuring public of trusteeing their estates and to the trust companies the importance of this service which they should render to the customers. We also appreciate the work which has been done by Mr. L. G. McDouall of the Fidelity Union Trust Company and Mr. John A. Reynolds of the Union Trust Company of Detroit and many other officers of trust companies for the many occasions on which they have addressed life underwriters associations throughout the country helping to educate them to the idea of increasing their insurance sales through the services rendered by trust companies and banks.

Two Distinct Functions

IT seems to us that the trust companies and banks and the life insurance companies and underwriters have two distinct functions and that they should each keep on their own side of the road but this does not mean that we cannot extend to one another the fullest spirit of cooperation in all good faith.

The life underwriters have been seeking the cooperation of the banks and trust companies for a great many years but it is only, as I have said before, within the last six or seven years that it has been forthcoming to the degree in which we had hoped.

We all believe that if this spirit of cooperation continues to grow that it will help to increase the sale of life insurance and the life insurance companies, if they have not already realized it, will do so in the near future.

In order to obtain the best possible results it is, however, necessary for the banks and trust companies to realize that they are rendering a bank and trust service and that if they are going to throw their doors open to the trustees of life insurance funds and want the life underwriters to bring this class of business to them and work for it, the life underwriters must feel that they are not coming into competition when bringing such a case to either the bank or trust company as such or an official of the institution.

Life underwriters can help build your business up to a very large extent for they are out soliciting all the time and come across the individual problems of the insured; they often see where a man has not made a will or has not properly arranged for the beneficiaries of his policies and many other details that would help to safeguard the administration of his estate and they can spread the idea of a man preparing for all these contingencies and recommend that a trust company or bank be made the executor or at least, a co-executor; they can render many cooperative services of that kind which will be of help to the banking institution. Their cooperation will spell success for any organization interested in extending fiduciary service.

Last year there was about seventeen billion dollars of new life insurance written—about nine billion of it was on the Ordinary Plan, the balance on the Industrial, Group or otherwise. Out of this nine billion on the Ordinary Plan, it is doubtful if more than a billion of it could have been trusted. The reason for this is that the average size policy written in all companies is less than \$5,000 and it seems to us that it is hardly worth while for a man to consider trusteeing anything less than \$25,000 unless he is building to a plan and then any amount should be satisfactory.

Naturally, the whole of this vast amount of life insurance will eventually pass through the banking institutions as it becomes paid in death claims, maturities, surrenders, etc.

What the Underwriter Expects

IT has often been said that for the money which the banks and trust companies have been spending in advertising the idea of life insurance trusts, the results have been comparatively very small, yet we submit that while it has taken eighty-five years for this life insurance idea to reach the pinnacle which it now enjoys through a well organized agency system, nevertheless, it should take but a very short period of years for the trust companies to reap the benefit from their cooperative effort if it is properly applied.

Fundamentally, as a business policy, the life underwriters must feel that when they bring a case to a bank or trust company their interests are going to be protected and they are not going to meet with competition. Unless the underwriters can be assured by reason of previous contact with the institution or because of the good reputation enjoyed by the institution that they will, in every way, be protected when once they introduce their clients to the trust companies, nothing useful can be accomplished.

We appreciate this opportunity of appearing before you and giving you our ideas and we hope that the close cooperation which we all desire will continue to grow. We recognize the great value of the work which you are doing for the cause of life insurance and we want you to recognize the work which we are and can continue to do for the increase of your fiduciary service.

CHAIRMAN PERKINS: We all appreciate very much what Mr. Myrick has said to us and we thank you very much for coming here.

The next speaker on the program is Mr. Franklin W. Ganse, Life Insurance Specialist, Boston, and Chairman of the Committee on Cooperation with Trust Companies of the National Association of Life Underwriters. His subject is, "What I Have Learned About Estate Needs in Selling Life Insurance." I have great pleasure in introducing Mr. Ganse.

What I Have Learned About Estate Needs in Selling Life Insurance

By FRANKLIN W. GANSE

Life Insurance Specialist, Boston, Mass.

MR. CHAIRMAN, Ladies and Gentlemen: It is a very foolish thing for a life insurance man, especially one who is under the obloquy of being called a specialist, to come here and tell you people anything about estates. In twenty-five years of life underwriting, an agent first becomes acquainted with prospects—sometimes that phase lasts quite a while. Then the prospects are transferred into policyholders. Then after a while those policyholders become decedents, and he gets in touch with the beneficiaries as a matter of course. He meets the widow, he makes the death claim settle-

ment; and from then on he has much the same outlook and somewhat the same kind of work that a trust officer has in handling estates, testamentary trusts, and the proceeds of life insurance policies left in trust; so that our experiences are somewhat alike.

I think I ought to define an estate from the viewpoint of a life underwriter, who has been selling insurance for twenty-five years; not every estate (because some of them are left about right, due to the work of a fine lawyer not connected with a trust company, or to a trust officer). The all-too-frequent estate, I like

to call it, the estate of seventy-five or eighty-five per cent of those with whom we deal, is not left in good order; and such an estate I would define in this way: "It is a lot of assets accumulated by a late successful business man, (hereinafter known and designated as the decedent), who wanted his family to get the most good from them but really didn't have time to arrange things."

That is the sort of estate that I have found, in selling life insurance, in both Chicago and Boston.

I could talk about the needs of such estates in an impersonal way, about the facts, the principles, that estates run up against; but in this brief talk, I prefer to take the personal viewpoint, concerning the individuals with whom this estate has to deal, and the kind of help or no-help they give it.

Three Classes of Individuals

ONE of the best definitions of the human brain in its different grades that I have heard states that brains are of three orders: those who understand themselves; those who understand what they are told; and those who never understand. The individuals who deal with estates can be subdivided into three similar classes. I have listed six individuals who deal with an estate, and from whom help might be expected, and from it is received in varying degrees. From the first class, generally speaking, the estate gets no help. I am talking about this all-too-frequent estate, not the infrequent perfect estate. From the second class, it gets help when it calls for it; and from the third class it gets volunteered help.

Who is the first individual with whom this estate deals? The owner or "said decedent." My definition disposes of him sufficiently. He generally does very little for his estate, if left to his own initiative. How often one finds a man who will have either his life insurance payable to his estate or will have no will, or both. Those are two of the commonest illustrations I meet—and one naming a decrepit executor comes next. In analyzing the estates of men of means—because as a sort of peripatetic assistant trust officer, I sometimes try to analyze an estate and bring it to the trust company to see whether or not I have done it right—I have never (this is a pretty broad statement) met the man yet who had large life insurance who didn't have some of it payable wrongly, and nearly always some of it payable to his estate. A man in Boston, whose name you would recognize if I mentioned it, has \$300,000 in life insurance payable to his estate. When I told him how I thought I could add \$20,000 to the value of his estate, he referred me to his lawyer and his lawyer told me he thought I was wrong. I don't think any trust officer in Boston would tell me I was wrong if I advised that man to make that life insurance payable to personal beneficiaries or a trustee for personal beneficiaries.

So from the owner and the beneficiaries, the decedent and the descendants, the estate doesn't get much help. The beneficiaries don't know anything about it. They generally aren't consulted. This morning we heard

a very illuminating talk, from which I learned a lot, about a course of instruction for underwriters. I will tell you what is needed even more,—some classes for decedents and beneficiaries. If you start a class to educate the decedent, you will have done a lot. The will-be-decedent, the coming decedent, is the fellow who needs instruction. Get him in. I started with that as a humorous suggestion. As I talk it, I think there is something in it. I believe we could arrange for meetings of prominent men, and lay these problems before them so that they would bury some of these troubles in the coffin with themselves instead of having the trouble just beginning after the coffin has been put under ground. Those are the persons related to his estate who do nothing for it generally.

The Second Class

THE second class, of those concerned with the estate, gives help when it is called for. I am speaking broadly, of course. I have met lawyers who have volunteered help and thrown out the lifeline when they really knew a man had a will as stale as a bundle of Limburger cheese. They would advise him that he ought to make a new one. You know the ethical principles among lawyers, which no doubt play a leading part in keeping the profession on so high a plane, but which play havoc with an estate when they won't throw out the lifeline to save it from drowning until they have been requested so to do.

Very naturally little help comes in advance from the executor—I mean the regular, old-time executor, not the modern corporate executor. Of course, such an executor is very often in that class because he was picked out as a friend, a good advisor, a business associate. He may not be very well qualified, and even though he is appointed executor, he may know little about the estate in advance. I have been named as an executor three times myself during the past few years and never knew it until after the wills were read. I certainly was never sent to a trust company to get a course of instruction as to how I should behave, before I knew I was appointed. Those two, the lawyer and the individual executor, generally help when called upon, and not until then.

The Third Class

NOW we come to the last class, including the underwriter and the trust officer. I want to be polite to my audience, whom I highly revere, so that I make the trust officer the climax. I want to emphasize this point, that these two should go out and volunteer to help the estate when it needs it most—in advance. I am not talking now to the Union Trust Company in Detroit or the Fidelity Union in Newark, and many others that we know of that have men who go out and take people, metaphorically, by the throat, and make them do their duty, or at least compel them to come in and discuss things in advance. There are altogether too many trust companies who, in my opinion as a life underwriter, are relying too much upon the

idea that advertising and good literature will bring in the lost sheep of the house of Israel so that they may be fixed up in good style in anticipation of their assets waking up some morning to find themselves at last an estate.

If we divide brains into those three classes, we should divide help to the estate in the same way. The trust companies can do more in going out and seeing people and urging their duty upon them, just as in some cases, I might confess, as a life underwriter, some of us could perhaps do less. We could balance up that work so that the approach to the man who has the need, and the offer of service to the man who has the need, are made openly and thoroughly and the community pretty well combed to see that "said decedent's" estate is going to be in much better order from now on.

It is a sad thing to think of estates all over this great country of ours, which is growing up in wealth and in strength and in many of the elements that make for family happiness, in spite of the "compassionate" marriages, coming down the stream and going over the rapids and getting into trouble that could just as easily be prevented as not. There is sad case after sad case. For trouble to the estate means loss and perhaps privation to the beneficiaries. Mr. Denio spoke of a particular estate in Boston. The man had certain wishes he desired to have carried out. He had spent his life accumulating that fortune and yet he left it to the accident that his brother consented to have his wishes carried out, instead of putting it in black and white.

Combating Inertia

THE trust officer is of greater service in this connection than the life underwriter can ever expect to be, if he will only get out and put his message across to the people, because he deals with the whole estate. The inertia of not making a will, of not voting at the primary, of not going out to vote on a stormy day in November, of not joining the church if you feel inclined to do so, of not taking needed life insurance, are all off the same piece of cloth. You are going to do it some day. These are postponable things that men procrastinate about. Some one must get after them in person and with some show of force, before it is too late. Have a strong, virile personality, come out and meet people, bring them in to interview somebody who will show them the great losses that come from procrastination.

It is a favorite thought of mine that there is a broad difference and also a parallelism between your work and ours. Roughly speaking, you are taking principal and putting it to work to produce interest, and then distributing that to the best advantage. But we will take interest and in due time make it produce principal. Of necessity those two things must dovetail together to get the best results. It is like the apple trees on my old place. You are in a position to take over those fine old apple trees, if you are the trustee, gather the fruit and feed or support my family. The life underwriter is ready, with your help, to take some of that fruit and

plant it to raise young trees, and so perhaps double the value of the orchard. "Let both grow together until the time of harvest."

As Chairman of the Committee on Cooperation with Trust Companies, I feel very grateful indeed to numerous individuals who are here, and to other trust officers all through the country, for helping us to lift the life insurance message to a higher plane, and for co-operating in what both insurance and trust companies are able to do to put estates in the best possible order, so that Mr. Decedent, when we get through with him, in a few years more, cannot leave his estate in imperfect order, but must leave it as the greatest blessing to those who come after him.

CHAIRMAN PERKINS: Gentlemen, Mr. H. F. Wilson, Jr., Vice-President of the Bankers Trust Company, New York, is going to report to us on three test cases which he has in hand and which will be of interest to us all. I am very happy to call upon Mr. Wilson.

MR. WILSON: Mr. Perkins, Ladies and Gentlemen, Registrars, Coupon Agents, Trustees, Guardians, and so forth, in other words Corporate Fiduciaries: There is just one thing that the previous speaker mentioned which I would like to bring to your attention. I am sure we are all very gratified to have him say that after the underwriters get their problems worked out the way they think they ought to be, then they bring them to the trust companies and find out whether they have done it right. I am glad to know that we are recognized experts, not only on that subject, but of course on a good many others.

You probably realize that these cases which are tested involve comparatively small sums and are yet of very great importance, not only to estates, but also to executors generally throughout the country. During the past few years, with the cooperation of the Trust Company Division of the American Bankers Association, the Bankers Trust Company has instituted three such cases. One had to do with Section 226-C of the Federal Revenue Act which dealt with returns for a part of a year. That is past history. The bill of the lawyers has been paid and I don't need to say anything much about that. I always like to deal more with the present and the future.

The Income of a Revocable Trust

ANOTHER of the test cases had to do with the Federal Revenue Act which provided in the case of a revocable trust that the donor was obliged to show in his own income, the income derived from that trust, even though payable to another. That test case is now under way. It involves a number of constitutional questions which, of course, the lawyers will submit for us. The last word I had on the subject was this:

"Although I am hopeful that the date of the argument will be fixed before the occasion of your report to the American Bankers Association, in any event if the U. S. Attorney's office complies with instructions, you will be able to report that the case is now at issue upon a petition to dismiss the complaint and will, in all probability, be argued before the District Court sometime in February."

We all realize, I am sure, how vital the winning of that case is in our effort to obtain new business. If a donor establishes a revocable trust and has income made payable to others than himself and still has to show that income as a part of his own income, it takes away a good deal of incentive to establish trusts of that sort with banks and trust companies. So that from the standpoint of obtaining new business, it is a pretty important case for us to win, but quite a hickory nut. Counsel are putting up a good fight and I understand that the hat has already been passed around among you all and the necessary funds to defray the expenses of the lawyers have already been collected.

Determining Taxable Gain

THE third case, and the one in which just now I am the most interested, deals not with the law directly, but with a regulation of the Treasury Department, reversing its previous rulings which said that for the purpose of determining a taxable gain, executors hereafter should take the cost to the decedent rather than the value at the date of death. It presents some almost insurmountable obstacles for executors to overcome. It compels them to do something which is almost impossible, to delve into the records of a dead man, back as far as 1913, and try to find out what he paid for securities during his lifetime. It also involves double taxation, because if there is any substantial appreciation or any appreciation up to the date of death over the cost to the decedent, the Federal estate tax is paid on the basis of the value at the date of death and necessarily takes into consideration that appreciation, so that from the standpoint of practicability and from the standpoint of justice, the ruling should be and is being contested.

The Bankers Trust Company instituted a test case on this last case which involved only \$24. We paid the additional tax and then claimed a refund, and I am glad to tell you that we have just won our case in the district court. I have not yet been advised whether the Treasury Department will appeal or not. I think perhaps in order to give you a little clearer picture, I should read a letter which I recently wrote to Colonel F. H. Fries, who is Chairman of the Committee on Legislation of the Trust Company Division of the American Bankers Association. The Colonel asked me if I wouldn't present this particular matter to you this afternoon.

"Although I am no longer a member of the Committee on Federal Legislation of the American Bankers Association, I know you will be interested to receive the enclosed copy of an opinion by Judge Thacher, Federal District Judge for the Southern District of New York. This opinion sustains the position of the Bankers Trust Company of New York that the gain or loss on the sale of property of an estate by an executor or administrator should be determined by using as a basis the value of the property at date of decedent's death rather than its cost to the decedent.

"As you know, the suit was instituted by Bankers Trust Company, as executor of the estate of Mary B. Brower, for the purpose of establishing the correct method of determining gain or loss on the sale of property of an estate by the executor or administrator. Prior to April 6, 1927, the regulations of the Treasury Department provided that in determining gain or loss upon the sale of

property forming part of the decedent's estate by the executor or administrator, the value of the property at the date of the decedent's death should be used as a basis. On that date, the regulations of the Treasury Department applicable to the present income tax law and to the income tax laws of 1924, 1921 and 1918, were changed and the cost to the decedent was prescribed as the basis for determining gain or loss on such sales.

"Executors and administrators found that the amended regulations were in most cases impossible to administer, as the actual cost of property to the decedent could not be ascertained. In addition, the new regulations would subject many estates to a great hardship in that accretion in value during the lifetime of a decedent is subject to estate and inheritance taxes, and would also be subject to income tax upon the sale by the estate, which would amount to double taxation.

"Although the case involved a tax of only \$26.40, it is estimated that the decision will affect payments of taxes aggregating millions of dollars. A decision sustaining the new regulations of the Treasury Department would have required the revision of substantially all estate income tax returns since the year 1918. The Treasury Department has not yet indicated whether the decision will be appealed. The subject appears to be covered satisfactorily in the pending Federal Revenue Act, thanks to the Trust Company Division of the American Bankers Association, but the pending Revenue Act has not yet become a law.

"Executors, generally, whether individuals or corporations, throughout the country will breathe a sigh of relief, not only to know that their estates are relieved from payment of substantial additional taxes, but also will realize the enormous additional work and responsibility which they have been saved and which they would have been required to perform without any additional compensation.

"As in the case of the previous test cases brought by the Bankers Trust Company, the cost should be borne by the members of the Association on a pro-rata basis so that even the largest banks would not be required to pay more than \$40. The Trust Company Division will then have rendered once again a great service to its entire membership."

That concludes the report as far as these cases are concerned, but while I am here, and because I may not have a chance again, I would just like to say a few words with respect to Mr. Leroy A. Mershon, who has served this Association so well and so faithfully for so many years. Mr. Sisson yesterday gave some figures indicating the growth of the trust business during the past few years. It was during those few years that Mr. Mershon has been in charge of the Trust Company Division of the American Bankers Association and under his administration the work has gone forward and has shown larger percentages of increase than ever before in the history of the Association. That speaks for itself in very large measure.

When we add to that the friendships which Mr. Mershon has made throughout the country, his never-failing courtesy, his ability, his cheerfulness and his pleasant personality, I think we all feel that the Trust Company Division has lost a very valued, tried and true servant. (Applause.)

I am sure we all rejoice with him also in his election as Vice-President of the U. S. Mortgage and Trust Company, and I think both Mr. Mershon and the U. S. Mortgage and Trust Company are to be congratulated. From what I have known of Mr. Mershon, his guiding principle can probably be better expressed in the words

of Henry Van Dyke, I think it is, than I could do. After all, these comments apply not only to him, but to all of us who are in love with the trust company business.

Let me but do my work from day to day,
In field or forest, at the desk or loom,
In roaring market-place or tranquil room,
Let me but find it in my heart to say,
When vagrant wishes beckon me astray,
"This is my work my blessing, not my doom,
"Of all who live, I am the one by whom
"This work can best be done in the right way."

Then shall I see it not too great, nor small,
To suit my spirit and to prove my powers;
Then shall I cheerful greet the laboring hours,
And cheerful turn, when the long shadows fall
At eventide, to play and love and rest,
Because I know for me my work is best.

Leroy, you know how keenly I feel those sentiments. I would suggest that if you ladies and gentlemen agree

with those sentiments with respect to Leroy Mershon you express it in an appropriate way.

...The audience arose and applauded....

MR. WILSON: Before I sit down, I want to add one more word, and that is to say, of course, all of us wish to Mr. Mershon's successor, Mr. Reuben A. Lewis, as the Secretary of the Trust Company Division of the American Bankers Association, a full measure of success, health and happiness.

Thank you all very much. (Applause.)

MR. MERSHON: Mr. Wilson, I want to thank you for your remarks.

CHAIRMAN PERKINS: Ladies and Gentlemen: We all owe Mr. Wilson a debt of gratitude for having said much better than most of us could have said it, what we all feel about Mr. Mershon.

The next speaker on the program is Mr. J. Melville Broughton, of Biggs and Broughton, Attorneys, Raleigh, North Carolina. Mr. Broughton is the attorney for one of the large trust companies of the country, and he is going to speak on, "Dignity in the Witnessing of Wills."

Dignity in the Witnessing of Wills

By J. MELVILLE BROUGHTON

Biggs and Broughton, Attorneys, Raleigh, N. C.

MR. CHAIRMAN, Ladies and Gentlemen: The trial lawyer who has to do with litigated cases of estates and wills and who is called upon to give counsel to trust companies in connection with such matters, gains some impressions with respect to the execution of wills that may not come ordinarily under the purview of the trust officer's business and which yet may be well considered by him. It is in this aspect of the case that I have been asked to speak this afternoon. I hope to be able to make my observations practical and brief.

The trust officer looks at a will and says, "How will it work out from the standpoint of administration?"

The lawyer's first thought with respect to a will is, "Will it stand up under the test?" That is, first the test to which it is subjected in matters of probate, and thereafter, will it stand the test if a contest is raised? It is a matter of common knowledge that the number of contested will cases is greatly on the increase; not only that, but it is easier to upset a will, there are more causes and bases for upsetting them than ever before. That may be due to the fact that we have developed in this modern time a number of new species of incompetents, neuroses, psychoses, and things of that character, some of which have originated in the criminal courts as matters of desperation and defense. Some have come from the imagination of the expert. Someone has said, I believe, that an expert, speaking of the expert witness, is a man who thinks more and more of less and less.

Then the psychologist has had his day, and it has been said of the psychologist that he is a man who puts some-

thing that everybody knows into words that nobody understands.

So whatever may be the cause, that is the fact, and the lawyer who has to do with that aspect of the matter considers that there are some practical problems that might be thought about by the trust officer in the inception of the matter.

The Nature of a Will

PROCEEDING with the formality due the subject, Dignity in the Execution of Wills, it is well to consider first the nature of the instrument itself. We usually speak of a will as the last will and testament of a man. The word "testament" means a solemn covenant. The word "will" and the nature of the instrument imports a certain dignity which cannot be safely set aside or overlooked. We consider not simply the matter of the statutory requirements, but all phases of the instrument.

In the first place, when a man comes to execute a will, he does so with the consciousness that he is providing for a future emergency in recognition of the fact that he sometime will depart from this world. Not only that, but he realizes that of all other instruments, the will is the one instrument that he cannot be present to interpret when that time comes. What is written is written. So the nature of the instrument, as I state, imports a certain amount of dignity and solemnity. That is true because of the statutory requirements, and from the other aspects of the case.

There is a certain amount of formality necessary in the execution of a will and it ought not to be abandoned. I do not mean to say that there should be any particular ceremony about the matter. It certainly ought not to be made a funereal occasion. It will be discouraging to the prospect whom we are inviting to execute his will to make it too solemn a matter. That can be overdone.

There used to be an itinerant preacher in the early days of our state who had the practice of making an inquiry of every man he came in contact with about the hereafter and the relationship of his soul's welfare concerning the hereafter. It is related that he was traveling along on a lonesome country road one day. It was getting dark, and he picked up a wayfarer trudging along the road, a stranger to him. After the stranger had been in his buggy a short while—it was in the days of the buggy—he turned suddenly to him and without any pre-word at all, said to him, "Are you prepared to die?" The stranger, without asking any particulars, jumped out of the buggy and left the spot. Thus a prospect was lost.

I do not mean that degree of solemnity, but I am dealing with the fact that a will is an instrument which by statute is required to be published and declared by the testator, to be his last will and testament in the presence of the prerequisite number of witnesses. Of course, I am not including for the purpose of this discussion the holographic will which is in general observance. I believe there are fifteen states in the Union who do not recognize that type of will. That type of will represents probably not more than five per cent of the wills admitted for probate.

A Statutory Right

I AM dealing with the so-called ordinary will. There are certain statutory requirements. I shall not discuss the distinction in the various jurisdictions concerning that, but I will say that whatever the state or jurisdiction, it is absolutely essential that every statutory requirement be complied with. The nature of a will requires that. The right to make a will is a statutory right, it is not a natural right. Chief Justice Clark of our Supreme Court, now deceased, in an opinion dealing with that question, described it and stated the law in language that is often quoted. He said that, "when one closes his eyes upon sublunary scenes and from his cold grasp drops the things for which he has toiled or sinned, he has no natural right to direct what disposition shall be made thereafter of those things." It is not a natural right. It is a statutory right and that being the case, the statute must be strictly complied with. If, for example, the statute in a given state says there shall be three witnesses, then two will not do, obviously. It matters not how intelligent or distinguished the two are. Not only that, but a frequent error that is made by persons dealing with wills is to overlook the fact that the testator may have property in a state other than that in which he resides and that particular state may require three witnesses, whereas the state in which he resides may only require two. He has a will in one

state, in the other state he dies intestate certainly as far as his will is concerned.

I think the trust officer who is passing upon that phase of the matter and who is looking to the final execution of the will and, of course, the same applies to the lawyer who is dealing with the matter, ought not leave those important details to the testator. The trust officer who turns the will over to the testator or the client or the lawyer who does that and leaves to him the important matter of execution, has failed to render a complete service to the prospect or the client.

A Recent Case

I REMEMBER a case recently of a will that I prepared for a client. He brought the will back to my office already executed. I asked him some questions about it. I asked him if he had signed it in the presence of two witnesses, as required in our state. "Well," he said, "practically so."

I said, "What do you mean?"

"I signed it and sent it over to a nearby building by the stenographer where two of my friends work and telephoned over to them I was sending over my will and wished them to witness it."

So far as the will itself was concerned as it appeared on its face, it appeared to be a valid execution, but if those facts had been developed in a contest or in the probate of the will, it would have absolutely invalidated the instrument, no matter how perfect it is as to other features. My point is that it is a part of the duty of the trust officer to see to the final details in the matter of the execution of the will. That ought to be done anyhow. There are many trust companies which have in their card indexes or other records, records of wills having been written in which the trust company is named as executor or trustee, and in many cases the will has not been executed. It may have been written, it may have been looked over by the trust officer. He may have it on his books as a prospective piece of trust business, but the will has never been executed.

Many cases of that character come under our observation. A man dies; you think the trust company is named in the will, and it is, but, unfortunately, the will has never been executed. It is good business and good service to see to the final feature of it and that is the execution of the will in a proper manner.

The Selection of Witnesses

WE come to another phase of the matter which is more of a practical nature than as to its legal requisites. I am talking about the matter of the witnesses to the will, the selection of these witnesses, whether it be two or three, or whatever the number that may be required. There are certain features in that connection that ought to be considered. The witness is not a person who is simply called upon to watch the testator sign his name to the will and then put his name on the instrument in attestation of that fact. That witness is the person who has to go to the probate court and there under oath certify to the circumstances and in most jurisdictions also certify to the competence of

the testator at the time the signing was done. That being the case, it is worth while to give some attention to the matter of selection of the witness that is to attest the will. In the first place, he ought to be ordinarily a witness who may be expected, from point of age at least, to survive the testator. The reason for that is obvious. Of course, the statutes make provision for proving a will by the proof of the handwriting of the witness, but that is difficult, involves some expense, and is not nearly so easy as to have the witness appear in person before the probate officer. Not only that, but the matter of the residence of the witness is important. A man living in North Carolina ought not to have his will witnessed by a guest from California and a traveling man from Michigan. That is obviously true. While he might prove the will after he is dead, there is great difficulty in doing it. You have either to pay the expense of the witnesses to come to that jurisdiction, or you have to have it taken before a commissioner in the form of a deposition which involves a great deal of time and a considerable amount of expense. If the trust company is looking after that detail, it ought to look to the point of the trouble and the expense of the probate of the will, because the trust company doesn't pay that expense, the estate pays it and it is a part of the duty of the trust company in all instances and in all features to save the estate money wherever possible.

Then the matter of the residence and, of course, the age and the general fitness of the witness. I do not mean to say that any question of an intelligence test should be submitted, but it is a mighty good thing to have a witness who knows how to take care of himself. Mr. Wellman of the New York Bar, in his very interesting book dealing with cross examination of witnesses, tells an instance of a witness on the stand who had witnessed a will. A question of attest of the will was being made on the mental competence of the testator. This witness had made out a good case for the sanity of the testator, having been a clerk in a building nearby. The lawyer on cross examination after grilling her considerably made the mistake that so many lawyers make, he asked one question too many. He said, "Now, madam, you are a clerk here in this building?"

"Yes."

"You don't know anything about sanity or insanity in any way, do you, you have never had any experience in that matter?"

That hadn't been brought out at all. She said, "Well, sir, I don't know so much about that, but before I became a clerk, I had spent five years as a nurse in the state hospital for the insane."

He had brought out some information he did not desire. The witness had the ability to take care of herself on the stand.

Qualifications of Witness

WE should consider the relationship of the testator to the witness. A stranger is perfectly competent from the standpoint of law to witness a will but is not a desirable witness. Of course, sometimes a stranger is a desirable witness for some purposes. I recall the story of the man who was in a strange town and he got a

money order for twenty-five dollars and went up to cash it, and they told him he would have to have somebody who knew him to identify him. After thinking the matter over very carefully, he could think of only one man in the entire town who knew him and to that man he owed the sum of twenty dollars, and it put him in a bad plight.

The point I make is if you are going to have a witness to the will, it is so much better to have one who is acquainted with the testator and knows something about him.

Some time ago I was trying a will case and had a witness to the will on the stand. Upon cross examination as to his acquaintance with the testator, he had to testify. He said, "I had never seen the testator before that day when I was called on to witness the will. I didn't know anything about him. He looked all right to me."

How much better it would have been if that witness could have truthfully said, "I had known him from my boyhood. He was always competent to make a will and never more so than on the day he signed this instrument before me."

I am saying to you from the standpoint of the lawyer in the court room that a little consideration of these phases of the matter in the beginning will save contests and will help to win them if they do come. A witness of character and integrity and acquaintance with the testator and freedom from any pecuniary interest is a bulwark in the court room in time of a contest. Naturally, the witness ought to be disinterested in every particular, free from any financial concern. If he is a beneficiary under the will, he either has to give up what he gets under the will or he is disqualified as a witness. That is an elementary proposition of law, yet there is hardly a week in our jurisdiction that some will isn't offered in which one of the witnesses is a beneficiary, thereby causing complications in the matter.

A Bad Practice

ANOTHER thing, it seems to me that it is bad practice—you may differ from me in this respect, but I will submit the opinion nevertheless—for a trust company which is designated as a trustee in a deed of trust or an executive to have that instrument witnessed by its own employees or officials. Why do I say that? I say that for this reason: If a man dies and his will has to be probated and a trust company is named as the executor, the trust company is the propounder of the will, that is to say, has to offer it for probate. If there is a contest, the trust company has to defend the will. I submit that the trust company that has to start its case by proving the execution of a will by one of its own employees has got a bad start. The trust company has a financial interest in the will, it gets commissions as trustee, and its own employees, therefore, are not disinterested persons.

I make the same proposition with respect to a lawyer. I believe the careful lawyer will never have his client's will witnessed by the clerks or stenographers in his own office, because he will realize that if he is called upon to defend the will, he is handicapped by the fact that

he has got to prove it by an employee of his own who has a definite interest in the matter. That is one of the things, it seems to me, the trust companies may well consider.

I think another thing they may well consider is the fact that the making of a will, as I referred to before, has a degree of solemnity, that the testator desires to publish and declare his will in conformity to the statute, but he doesn't wish to do that in the presence of a promiscuous group of people. So many trust companies have failed to recognize that fact, and to provide a place that is reasonably suited and in keeping with the dignity and the propriety of the matter of executing a will. Here is a client who has to sit down to a table or stand up in the presence of a number of clerks and stenographers and promiscuous people and go through the matter of executing his will. I want to say when a

man gets ready to execute his will, he is not in the mood for broadcasting, and I think the trust companies may consider that in the facilities which they afford for that important purpose.

These, gentlemen, it seems to me, are some of the practical phases that have to do with the matter of witnessing and executing wills. I conceive it to be a part of the duty of a trust company to render its service to the final act in connection with the will, and if you do that, many contests will be avoided and those that do come will be better defended.

CHAIRMAN PERKINS: The next address, "The Trust Company and Real Income," will be presented by Dr. James G. Smith, Assistant Professor of Economics, Princeton University, and Consultant of Committee on Research, Trust Company Division, American Bankers Association.

The Trust Company and Real Income

By JAMES G. SMITH

Assistant Professor of Economics, Princeton University, Princeton, N. J.

A MAN'S real income consists of the amount of desirable things that his money income will buy—the necessities, comforts and luxuries that his monthly or yearly check will supply. If the prices of necessities, comforts and luxuries are high, it will require a larger dollar income than if those prices are low. If the prices of things remained stable from year to year, the real income would increase or decrease in proportion to the dollar income. But it is a well known fact that the prices of things on the average fluctuate in great cycles of varying length—from 1866 to 1896 there was a decline in prices, from 1896 to 1920 there was a cycle of rising prices, from 1920 to 1922 prices fell rapidly. Since that time they have remained fairly stable and everyone is wondering whether the next cycle will be one of rising prices, or one of falling prices. The following quotation from Irving Fisher may give a somewhat more definite idea of this fluctuating value of the dollar:

"Let us look at figures in this country back in 1860. In that year, before the Civil War, we find the purchasing power about the same as in 1913 before the World War. We may call the level of 1860 or 1913 'the pre-war level,' and think of it, for convenience, as a normal for reference, one hundred per cent,—that the dollar then *was* a dollar so to speak. In terms of this pre-war dollar, we can measure the dollar at any other time.

"We find as we pass into the Civil War, from 1860 to 1865, that it was worth only forty pre-war cents, only forty per cent of what it was worth in 1860. From that time on, it began to appreciate, first very rapidly, and then more slowly, until it reached its maximum in 1896, when it was worth 152 pre-war cents, about four times as much as at the start of that toboggan slide of prices—a rapid rise of the dollar means a rapid fall of prices. From 1896 to 1913 the dollar fell from 152 pre-war cents to one hundred or "normal." From 1913 it

continued to fall, from one hundred pre-war cents, until it got down to forty again in May, 1920. Then there was deflation, and a rise in the value of the dollar. So the dollar changed again from forty until it reached seventy-two pre-war cents in January, 1922. . . ."

No one knows whether the next cycle will be a period of rising prices or a period of falling prices. The factors which cause a rise or fall in the price level are so numerous and so complex that no one has ever successfully predicted the course of the price level for the future. But it may be said with a fair degree of assurance that it will not be stable—that is practically certain.

Banks Concerned with Money Income

A COMMERCIAL bank or savings bank is not concerned with real income. All the liabilities of a bank are in dollars—they are contractual obligations expressed in dollars, and so a commercial bank or savings bank needs to have its assets likewise in such a form. Thus the assets of a bank consist of contracts expressed in dollars. It is of primary importance for the bank to maintain a liquid position in terms of dollars because its liabilities are in dollars. Similarly, in the case of life insurance companies—the life insurance policies are in the form of contracts to pay in dollars, not in real income; and so the life insurance company must maintain a liquid position in terms of dollars irrespective of the amount of necessities, comforts and luxuries that those dollars will buy.

Dollar income is conserved by investing in bonds or contractual obligations and so such financial institutions as banks and insurance companies should and do invest for the most part in bonds, or short-term contractual obligations to pay *dollars* to the bank.

Trusteeship Concerned with Human Livelihood

BUT the relationship existing between the trustee and the beneficiary or the trustee and grantor, is not a contractual one—one of the great features of the personal trust account is its flexibility. In the performance of this service of trusteeship, is the trust company concerned only with the dollar income, or must it also safeguard the real income of the beneficiaries? Properly interpreted, this trusteeship which the trust companies and banks are undertaking is something more than the mere conservation of dollars—it is the conservation of real income, the human livelihood which those dollars will buy. Real income is conserved by investing in a properly diversified list of stocks, and not by investing in bonds, in periods of rising prices. Only in periods of falling prices does the trust fund require a large percentage of holdings of bonds. Trustees, therefore, should invest trust funds in a diversified list of stocks as well as bonds.

Two Principal Difficulties Considered

BUT it will be objected that common stocks are too speculative for trust funds; and in the second place it will be objected that trustees cannot so invest because the law requires them to invest in bonds for the most part. The answer to the first objection is that common stocks are speculative *only when viewed in terms of dollars*, and *when viewed with respect to individual enterprises*. When viewed with respect to a diversified holding in common stocks, and in terms of real income common stocks are *less* speculative than bonds. Bonds are stable only when viewed in terms of dollars—when viewed in terms of real income bonds are more speculative than a diversified list of common stocks.

Speculative Nature of Stocks and Bonds in Dollar Income

AS above stated, when viewed in terms of *dollars*, the market value of stocks and the income from stocks may be unstable. In other words, stocks are unstable and fluctuate in dollar value because they tend to rise in value with rising prices, and to fall in value with falling prices. This must be so, since the common stock which is being bought and sold in the market represents but a legal claim to those things whose prices in the market are rising—it is part-ownership in the factories, mills, foundries, refineries, railways, steamships, banks, merchandising buildings and equipment, and the products of those agents of production. Just as the market price of stocks rises with rising prices, so will the dollar income on a diversified list of stocks be unstable in terms of dollars and increase with rising prices and decrease with falling prices. Thus the series of expected incomes in dollars which a diversified list of stocks promises may be represented by a variable X_1 , X_2 , X_3 , etc., to an indefinite number of years. In other words, the instability of the value of a dollar is reflected into the market price of a diversified list of stocks, and is

likewise reflected into the dollar income received on the stocks.

The market value in dollars of a diversified list of common stocks may thus be symbolized by the following equation, where each of the future expected dollar incomes are discounted to their present value at the prevailing interest rate and summed up to give the total present market value of all of those future expected dollar incomes:

Chart 1

Monetary Income	
Dollar Present Worth of Stocks	
$\$P = \frac{\$X_1}{1+r} + \frac{\$X_2}{(1+r)^2} + \frac{\$X_3}{(1+r)^3} + \dots + \frac{\$X_{00}}{(1+r)^{00}}$	

Referring to this equation, it is seen that the factors which cause a rise in stocks may be summarized as follows:

- 1.—Increase in expected income due to rise in general price level.
- 2.—Increase in expected income due to success or growth of business.
- 3.—Decrease in the “ r ,” i. e. the interest rate or the capitalization rate as it is sometimes called.*

Similarly the factors causing a fall in the present market value of stocks may be summarized:

- 1.—Decrease in expected income due to fall in general price level.
- 2.—Decrease in expected income due to failure or decline in business.
- 3.—Increase in the “ r ,” i. e. the interest rate or the capitalization rate.

In terms of *dollars*, then, it is concluded that stocks are likely to be unstable and speculative.

On the other hand, bonds are stable in dollar value, with respect to market price and income, relatively speaking; because they are contractual obligations to pay a fixed sum of dollars at each interest date and a final fixed sum of dollars (the principal) at the maturity of the promise to pay. This may be represented symbolically by the following equation, where each of the future annual fixed dollar incomes (represented by “ a ”) is discounted to its present market value by the prevailing long-term interest rate.

Chart 2

Monetary Income	
Dollar Present Worth of Bonds	
$\$P = \frac{\$a}{1+r} + \frac{\$a}{(1+r)^2} + \frac{\$a}{(1+r)^3} + \dots + \frac{\$a + \$P}{(1+r)^n}$	

*This refers to long-term rates, not to the short-term or call loan rates.

Chart 2 represents the present worth of a diversified list of bonds in terms of dollars. In the case of bonds, in contrast with stocks, there is a contractual obligation

to pay a fixed sum of dollars each year for a number of years and at the end of that time the principal, so that there are "a" dollars payable the first year, "a" dollars payable the second year, and so on to a series of "n" years and at the end of the nth year, the principal, "P," is likewise repaid. Leaving out of consideration the amortization of premium or the accumulation of discount, the annual income of a list of bonds is stable in contrast with the very unstable annual income from a diversified list of stocks—that is, in terms of dollars.

The only variable factor in this equation which determines the market value of a bond is the "r," or the capitalization rate. Consequently the one factor causing a rise in dollar present worth of a list of bonds is a decrease in the capitalization rate or interest rate; and the only factor causing a fall in the dollar present worth of a bond is an increase in the capitalization rate or interest rate. It is assumed, of course, that the bonds are not speculative as to business conditions—a very favorable assumption to make indeed.

Broader Social Aspects of Trusteeship

NOW if it were true that the price level were stable, the bond investment would be as safe and conservative as it is usually assumed to be; but the price level is far from stable, as is well known. So far as actual amount of dollars received is concerned, the bond presents a stable investment, but people cannot eat dollars, nor use them for clothing and shelter—it is the purchasing power of the dollar's worth of income which is of vital concern to the beneficiary of a trust and should be of concern to the trustee for that reason. One is not conserving an estate by merely conserving the *dollar's worth*, if those dollars are becoming worth less and less all the time. Irving Fisher likes to tell the following story:

"A friend of mine, a woman, was left in 1892, close to this period I refer to, a fortune of \$50,000, put in trust, and the interest was paid to her, about \$2,500 or \$3,000 a year. In 1920 I went with her to see the trustee who had been managing her property all those years. The trustee showed us how carefully he had invested—only in 'safe' bonds, not in unsafe stock. He said he was sorry that in one case the bonds had deteriorated so that the principal was no longer \$50,000 but \$48,000. I said, 'I claim there has been an impairment of seventy per cent, or more.' He said, 'Nothing of the sort. You can look at my books.' I said, 'I haven't any doubt of your personal honesty.' Then I explained to him. I said, 'This lady has not been receiving any income. Her father put in your custody \$50,000, which represented at that time a certain purchasing power, so much bread and butter and clothes and house-rent. If you had kept custody of that sum as real value in terms of human living, not merely as dollars, you would have the equivalent of it today, and the equivalent of it today would be over \$150,000. You haven't it. You have only \$48,000. If you had really conserved that fortune in actual purchasing power, you would not have paid her that \$2,500 every year. You would have re-invested out of that a sinking fund against the sinking value of the principal, so as to keep up the

value of the principal to where it was when it was put in your hands. But you would have had to invest all of that \$2,500! Therefore I claim she has not been receiving any income from a real unimpaired capital. The alleged income was all falsely kept on your books—not through your fault—but because you have been keeping it by false weight and measure—just as falsely as if in Germany a fortune of 50,000 marks in 1920 had been called as large as 50,000 marks in 1892.' He said, 'It is not my fault.' I said, 'No. But for heaven's sake, you people who are keeping fortunes of widows, orphans, colleges, hospitals, and churches, can't you be interested in something more than whether it is your fault or not? Can't you be interested in the great social effort of preventing these widows and orphans and hospitals and colleges from being robbed? This woman's income is only one-third in value of what it was when she began. If you had invested in ordinary stocks, she would have been richer rather than poorer, because the stockholders of this country have been winning what she as a bondholder has been losing.'

Speculative Nature of Stocks and Bonds in Real Income

IT IS proposed now to examine the speculative nature of stocks and bonds in terms of real income. Chart 3 is a symbolic presentation of real income from a diversified list of common stocks. If each annual income "x" is divided by the prices of things which it will buy "y," the result is the number of things contributing to necessity, comfort and luxury that the income will buy—i. e. real income. The result will be that fluctuations which occurred in the dollar income from stocks, due to changes in the value of the dollar, will be cancelled out and the resulting real income is relatively stable and may be represented by a constant "k," because the instability of income due to uncertainty of business may be overcome by diversification.

Chart 3

Real Income				
Purchasing Power Present Worth of Stocks				
$P =$	$\frac{x_1}{y_1}$	$+$	$\frac{x_2}{y_2}$	$+$
	$\frac{x_3}{y_3}$	$+$	\dots	$+$
	$\frac{x_{00}}{y_{00}}$			
	$\frac{1}{(1+r)}$	$+$	$\frac{1}{(1+r)^2}$	$+$
	$\frac{1}{(1+r)^3}$	\dots		
	$\frac{1}{(1+r)^{00}}$			
or				
$P =$	$\frac{k_1}{1+r}$	$+$	$\frac{k_2}{(1+r)^2}$	$+$
	$\frac{k_3}{(1+r)^3}$	\dots		
	$\frac{k_{00}}{(1+r)^{00}}$			

Thus it is concluded that much of the apparent instability of stocks is actually stability in terms of real income, and that stability is concealed by the fact that the dollar income fluctuates to accommodate itself to changing value of money.

Similarly, it is possible to analyze the bond values and income. If each periodic interest payment is divided

by the prices of the necessities, comforts and luxuries of life which it will buy, the result is the amount of real income from the bonds—and if prices rise that income will buy less and vice versa. Thus, viewed in terms of livelihood, the market price and the interest income on bonds is highly speculative and fluctuates to the extent that the price level fluctuates, which is known to be greatly.

Chart 4

Real Income	
Purchasing Power Present Worth of Bonds	
$P = \frac{\frac{a}{y_1}}{1+r} + \frac{\frac{a}{y_2}}{(1+r)^2} + \frac{\frac{a}{y_3}}{(1+r)^3} + \dots + \frac{\frac{a+P}{y_n}}{(1+r)^n}$	$P = \frac{x_1}{1+r} + \frac{x_2}{(1+r)^2} + \frac{x_3}{(1+r)^3} + \dots + \frac{x_n}{(1+r)^n}$
or	
$P = \frac{x_1}{1+r} + \frac{x_2}{(1+r)^2} + \frac{x_3}{(1+r)^3} + \dots + \frac{x_n}{(1+r)^n}$	$P = \frac{x_1}{1+r} + \frac{x_2}{(1+r)^2} + \frac{x_3}{(1+r)^3} + \dots + \frac{x_n}{(1+r)^n}$

Thus the equation for the present worth of a list of bonds and their periodic interest payments in terms of real income are variable and not stable. Much of the stability of bonds is concealed instability, concealed by the fact that it remains a given dollars worth due to the nature of the contractual agreement—but when

converted into real income, into clothes and food and house rent and so on, it is highly unstable. The beneficiary of a trust is interested in real income, not in monetary income.

Bonds More Speculative Than Stocks in Terms of Real Income

THE following graph is presented to give a picture of the instability of the dollar since 1860—it was likewise unstable before that time. It is a picture in graphic form of the description of the instability of the dollar which was quoted from Irving Fisher at the beginning of this paper.

The heavy dotted line shows the fluctuation of real income which could be purchased with one dollar, from 1860 to 1922. From this graph may be visualized the following:

- 1.—The relatively fixed income in dollars from a diversified list of bonds would remain stable in dollars, and would be represented by the straight horizontal line; but
- 2.—When this fixed dollar income is translated into real income it would fluctuate as represented by the heavy dotted line.
- 3.—The relatively unstable dollar income from a diversified list of common stocks would *tend* to fluctuate as represented by the heavy dotted line (although in the opposite direction); but
- 4.—When this fluctuating dollar income from a diversified list of common stocks is translated into real income it would be relatively stable, and would be represented by the straight horizontal line.

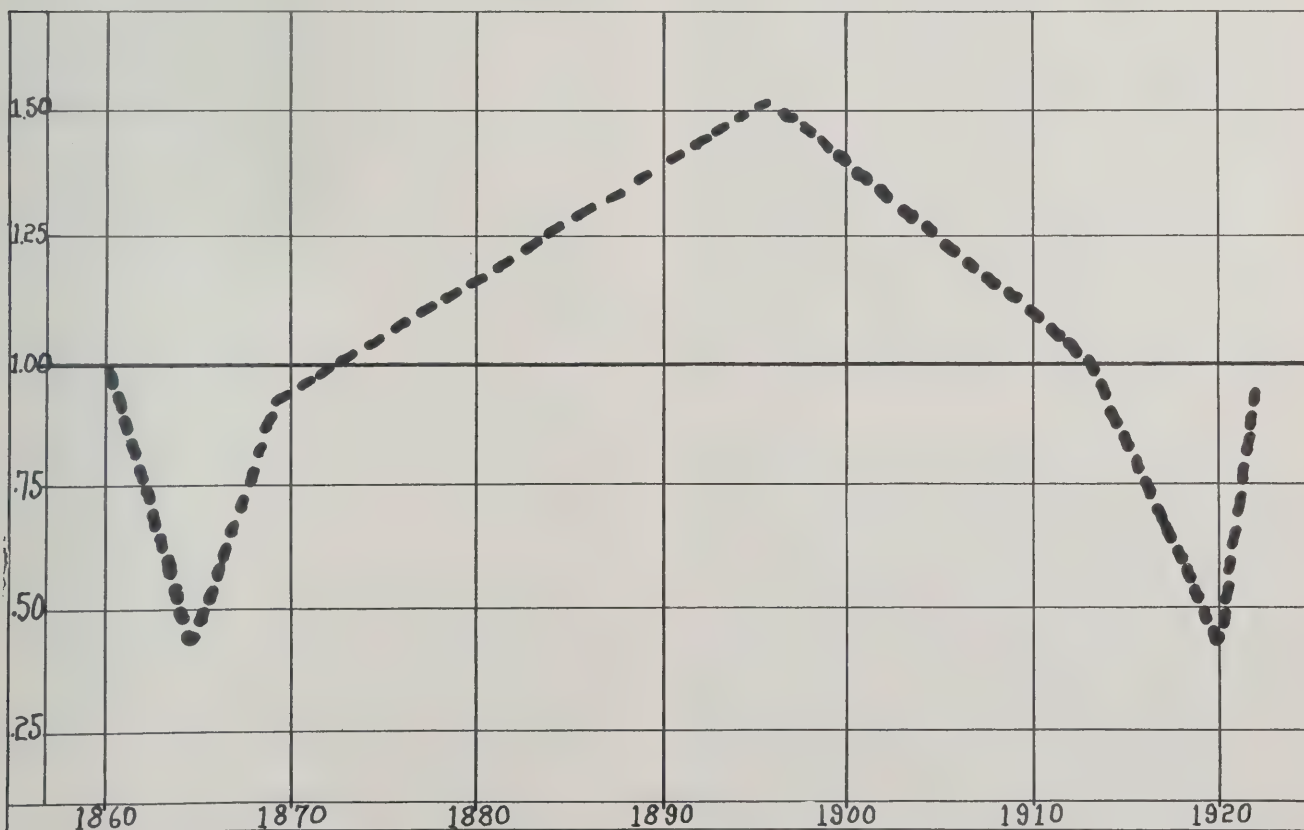


Chart 5

The effect upon the principal in each case would be similar.

In terms of real income, the factors causing a rise or fall in purchasing power, present worth or real income of stocks and bonds may be summarized as follows:

Stocks

1. Success and growth of enterprise.
2. The interest rate

Bonds

1. Changes in the price level
2. The interest rate.

Now it is only in periods of great economic, political or social upheaval that the long-term interest rate, or capitalization rate fluctuates to any great extent, and besides it affects both stocks and bonds and consequently does not enter as a consideration in determining which of the two is the more speculative in terms of real income. The question is: Which chance is better—success and growth of enterprise in a progressive and growing civilization of worldwide extent, or a fall in general price level. A purchaser of a diversified list of common stocks makes the bet that business will progress and succeed and make profits. A purchaser of bonds makes the bet that the price level will decline, in which event his fixed dollar income will become worth more in terms of real income. Which makes the best bet?

There are two additional factors which must be considered in deciding which of these two is the best bet. In the first place, it must be borne in mind that the rise in the value of bonds in terms of real income, due to a falling price level is accompanied with another speculative contingency—that is the likelihood of widespread inability on the part of indebted enterprises (particularly those enterprises having a relatively large amount of bonds in their financial structure) to pay their fixed charges and resulting reorganizations and recapitalizations. The decade of the nineties, after a protracted period of declining general prices (rising purchasing power of the dollar), was an era of recapitalization and reorganization during which many bondholders found themselves forced to reduce their contractual claims upon enterprise and accept preferred stocks or less favorable contracts in the form of income bonds or bonds bearing a lower contractual rate of interest. Thus the advantage that the bondholder has when prices fall is likely to be taken away from him.

In the second place, it must be borne in mind that in a period of slowly falling prices even the dollar income of a diversified list of common stocks may not decline at all; and almost certainly will not decline as rapidly as the falling price level. This is because the natural increase in the prosperity of enterprise due to the growth of the country will offset the adverse influence of the falling price level. Furthermore, in such periods the management is stimulated to devise new economies of production and to introduce better technical methods because wages remain relatively high. As a matter of fact, it has been demonstrated by the facts that in the period of falling prices from 1870 to 1896, the dollar income of a holder of a diversified list of common stocks did not decline. The decline which would theoretically have taken place due to the fall in prices was counteracted by the tremendous growth of enterprise during that

period. The demonstration referred to is contained in Edgar L. Smith's *Common Stocks as Long Term Investments*.

Yet it may be granted that in a period of stable price level, bonds are the least speculative both as to dollar income and as to real income; and in a period of slowly falling price level bondholders reap an advantage providing the decline of prices is not sufficiently rapid or long sustained to cause recapitalization of enterprise and reorganizations, forcing the bondholders to take less favorable contracts. But the price level, or the purchasing power of the dollar, constitutes a variable which is unknown in advance; and hence introduces a situation into the investment problem which is unavoidably speculative. The course of events is unpredictable. The only practical solution to the problem is proper diversification between stocks and bonds. Experience only can teach what is "proper diversification"; but there are times when it is quite evident that we are in a period of rising price level and proper diversification at such a time would include a somewhat larger proportion of stocks in the investment of trust funds than would be so in a period of evident falling prices.

Other Reasons Why Trust Companies Should Invest Trust Funds in Common Stocks

THERE are other reasons why trustees and particularly corporate fiduciaries should launch a campaign for a change of legislation which would permit the carrying out of an investment policy such as that indicated.

In the first place, it is conceivable that if the corporate fiduciary does not devise some plan to meet this need for purchasing power or real income accountability, the investment trust as a new and separate institution will become a menacing competitor of the corporate fiduciary in the field of personal trust service. Furthermore, so long as trustees merely are accountable for dollar's worth of estate and not for real income, the life insurance business is an active and real competitor in the field of personal trust services.

In the second place, with a rapid expansion of personal trust business, it will be increasingly necessary to broaden the field of permitted investments for trust funds. A trustee is unable to choose the time when he will make an investment. He must buy when he has the funds, because the beneficiary needs the income and the courts will not justify the retention of uninvested cash for any great length of time even to obtain a better market in a particular type of bond. Thus the range of choice for trust investments is even narrower than the law apparently makes it; because there are times when it is most unfavorable to buy bonds. Such times usually occur when it is a favorable time to buy stocks.

In the third place, because of the nature of banking and life insurance business, where the liabilities are in dollars, such institutions are tremendous buyers of bonds and other contractual obligations. This tends to create an artificial demand for such securities at all times, and such demand is further increased by the fact that the trust companies are now forced to enter that market for

securities for trust funds. Thus the price of the contractual type of securities is bid up higher than it otherwise would be, and the yield is correspondingly lower. With an increasing shifting of funds from individual hands to trustees for investment this tendency will be aggravated, and while trust companies will struggle to increase their personal trust business there will be a tendency to prevent growth due to the fact that the yield obtained on invested trust funds will decline.

Finally, the fact that the corporate fiduciary as a professional trustee must have in mind not only the affairs of a single trust, but it must have regard to its reputation as a professional fiduciary, leads to an ultra-conservatism on its part. At the present time the criterion of adequate trusteeship is fixed by the law in terms of dollars rather than real income. While the trustee might well afford to pay a sum involved in a loss to a particular estate, it must win all cases which might arise against it in order to keep its record clear. For this reason, the trust company tends to "lean over backwards" in its obedience to the law concerning the investment of trust funds because then if there is a loss to the trust fund it has a clear case in court in its favor. This is true even in the cases of trusts where the trust company is given discretion by the grantor.

There is a tendency for the corporate fiduciary to "bury the talent of gold" in contractual securities or bonds, giving to the beneficiary the smaller income of a passive capitalist investor rather than to undertake its trusteeship in a more constructive manner and gain for the beneficiaries the larger income of an active capitalist or enterpriser. The parable of the talents depicts what trusteeship should really mean.

At the present time, the law protects the corporate fiduciary if it conserves dollars. The law should be changed so as to protect the corporate fiduciary only if it conserves real income or human livelihood.

The Association of American Colleges

CHAIRMAN PERKINS: Gentlemen, on January 26, Mr. Merston received from the Secretary of the Association of American Colleges, New York, a letter which reads as follows:

"I take pleasure in sending you the following extract from the official minutes of the Fourteenth Annual Meeting of the Association of American Colleges held at Atlantic City, N. J., January 12-14, 1928.

"Extract from Minutes of the Friday Morning Session of the Fourteenth Annual Meeting of the Association of American Colleges, January 13, 1928.

"The suggestion was unanimously approved that Mr. Trevor Arnett, Chairman of the Association's Standing Commission on Permanent and Trust Funds (subsequently elected President of the Association for 1928-29) be appointed by the Association as a special representative to the next meeting of the Trust Company Division of the American Bankers' Association, with a view to presenting to that Division the action taken by this Association regarding possible contacts between the trust companies and the colleges and universities of the country; and he was duly appointed to that service.

"Should you care to send an invitation directly to Mr. Arnett, indicating when it might be possible for the Trust Company Division members to give him a hearing,

I send his address—Mr. Trevor Arnett, 61 Broadway, New York City."

Mr. Arnett is with us this afternoon and I should like to ask him to come forward and address us.

MR. ARNETT: Mr. Chairman, Ladies and Gentlemen: It is a very great privilege that I have this afternoon of representing before you the Association of American Colleges. Your chairman has read to you the resolution which was adopted by that Association at its recent meeting in Atlantic City in January. Perhaps you might be interested to know something about the Association of American Colleges.

It is an Association which comprises practically all the colleges and universities in the country. It has a meeting once a year, lasting two or three days, at which matters of deep interest to the colleges and universities are discussed. At that meeting in January at Atlantic City, the Commission on Permanent and Trust Funds of that Association, of which I happen to be Chairman, presented a report. In that report, the suggestion was made that cooperation between colleges and universities and trust companies, banks, insurance companies and the legal profession could be beneficial to all parties concerned. The suggestion of the Commission was heartily received by the Association, and was unanimously accepted, and it was voted that the Commission on Permanent and Trust Funds take such steps as it saw fit in order to promote the plan. It is perfectly obvious to the members of the Commission, and also to the members of the American colleges and universities that cooperation to be effective must be beneficial to all parties concerned. It was thought that one of the fundamental considerations in making the plan effective would be for the trust companies to have information with respect to the magnitude of the business and the organization of colleges and particularly with respect to the amount of their trust funds. It was thought that probably one of the most effective ways of supplying that information would be for the higher institutions of learning in the different parts of the country to draw up a statement with respect to their own situation and present it to the trust companies in their immediate vicinity so that in case those trust companies were asked for information from their clients regarding the status and the need of those colleges, they would have before them authoritative information.

That idea was warmly received by the members of the Association, and I have before me now a statement made by one institution that has \$14,000,000 of endowment and which I understand it is putting in the hands of trust companies to invest for it, stating exactly the various facts regarding that institution, its needs and the manner in which persons of wealth could render a service to that institution by making contributions.

You may be aware of the amount of trust funds which colleges and universities have. The most recent report that I have seen on the matter indicates that the aggregate amounts to over a billion dollars. It is perfectly obvious to all of you that endowment funds are trust funds. At the present time, most of these funds are managed by the institutions themselves, but every little while bequests and trusts for the benefit of the institu-

tions are received which are placed in trust with trust companies. This afternoon just before I came up here, I saw the latest edition of "School and Society," and it indicated that a trust had just been set up with one of the Los Angeles trust companies for the benefit of a California institution, with the understanding that after the death of the donor, the trust would become irrevocable and would be handled by that trust company.

It is unnecessary for me to tell you of the spread of the trust fund idea. You know perfectly well how rapidly individuals are coming to use trust companies to manage their own estates. It would seem natural that when a person is setting up trust funds with trust companies, if he is interested in educational institutions, it would be a normal thing for him to place any trust for the educational institution with the trust company together with his other trusts.

Gifts to educational institutions are just as popular now as they ever have been. A report from the U. S. Bureau of Education of the Department of the Interior for the year ending June 30, 1926, indicates that during that year about \$117,000,000 was given to the higher institutions of learning in this country, \$70,000,000 of which was endowment. The remainder was for current expenses or for buildings and equipment, but of that \$117,000,000, you will note that \$70,000,000 was trust funds.

Information Desired by Association

IN THE cooperation which the Association of American Colleges had in mind, as you will note, there were five parties in interest: First, there was the person who was establishing the trust; then there were the beneficiaries of the trust; then there were the banks and trust companies; the insurance companies, and the legal profession. It was thought that cooperation with all these organizations would be mutually beneficial, first, so far as the educational institutions are concerned in obtaining funds for their purposes; and, second, so far as the trust companies are concerned in obtaining trusts to manage from which they will get the normal revenue.

Information for these parties was the thing that the Association's Commission had in mind to furnish, and there was discussion as to whether it would be better to make a general statement which would be applicable to all institutions, giving the background for which educational institutions might be considered, or whether it would be better for the individual institutions to make their own statement. No decision has been had on that matter so far. As I have indicated to you, certain of the individual colleges are already working on the plan and have drawn up statements with regard to their own situation, giving the information that will be necessary for a donor.

In this connection, the Association, therefore, would like to learn the following, which I simply leave to you after I ask the questions:

Do your companies look upon charitable trust business as desirable, including in charitable trusts, of course, educational trusts? Do you, or do you wish to, actively

solicit it? Do you maintain any special cooperative relations with religious, educational and social work organizations, with a view to developing charitable business trusts? What special facilities have you for handling charitable trusts? Are you in position to accept charitable trusts under a "community trust" or under The Uniform Trust for Public Uses? Have you anything to suggest in order to bring about more effective cooperation with religious and educational administrators?

I am leaving those questions with you. The Association will be very glad at any time to receive any suggestions from this Association collectively, or from any of the trust companies individually. Thank you very much for this opportunity to speak to you.

CHAIRMAN PERKINS: I think I can say for the members present, Mr. Arnett, we would be perfectly ready to receive that billion dollars and attend to it at the regular rate. If you will turn it over to us, we will look out for it.

That completes the program for the afternoon, gentlemen.

(Adjournment)

FIFTH SESSION

Thursday Morning, February 16, 1928

Mr. James H. Perkins, presiding.

CHAIRMAN PERKINS: Gentlemen, the meeting will come to order.

First, I am going to ask Mr. Walter E. Robb, President of the Burlington City Loan & Trust Company, Burlington, New Jersey, to make a short statement. It appears that Congressman Goodwin, of Minnesota, introduced a bill as follows: In the case of a tax on said shares (meaning the shares of national banks), the tax as imposed shall not be at a greater rate than the rate imposed upon shares of state banks." "This is dangerous not only for the national banks, but also for the trust companies. I will ask Mr. Robb to make a short statement on that.

MR. ROBB: Mr. Chairman, Ladies, Fellow Bankers, and Fellow "Decedents:" Yesterday we talked so much about insurance that some of the men began to think this was a conference of trust officers, insurance agents, widows and orphans, funeral directors, decedents, and descendants. If this was a conference held by the State of New Jersey the matter would be very simple, because in New Jersey our people are divided into two classes—those who have a little still and those who still have a little.

Tax Imposed on Bank Stocks

MR. MERSHON has asked me to make a brief statement with reference to an "insurance policy" which I think, as bankers, we have. I refer to Section 5219 of the Revised Statute. It states that, "The tax imposed (meaning the tax imposed upon bank stocks) shall not be at a greater rate than is assessed upon other moneyed capital in the hands of individual citizens in the state coming into competition with business of the national banks."

In the House of Representatives Congressman Good-

win, of Minnesota, introduced a bill that contains not more than three lines, as follows:

"In the case of a tax on said shares (meaning the shares of national banks) the tax as imposed shall not be at a greater rate than the rate imposed upon shares of state banks."

On December 12, 1927, Senator Norbeck, Chairman of the Senate Committee on Banking and Currency, introduced in the Senate a bill which proposed to classify the banking business by itself for purposes of taxation. In the Senate, the amendment as suggested is more complex. The present law provides that the rate applied to national banks must not be greater than the rate upon moneyed capital that competes with them. The proposed amendment will change this to provide that, "the rate shall not be greater than is applied to other moneyed capital used or employed in the business of banking."

The purpose of the Senate bill is the same as the purpose of the House bill, to set banking in a class by itself for purposes of taxation by the states without regard to the rate applied to other classes. These amendments are serious as they would take away from the national banks and the state banks the only real safeguard which banks can have against hostile and unfair legislation. If the states are required to tax the individual as high as banks are taxed, they will be careful about imposing excessive taxes. The individual can vote; the incorporated bank cannot vote nor hope to enlist public sympathy. That is the reason there is always the danger that Legislatures seeking more revenues for the states will consider the banks an easy mark.

Banks and Trust Companies Jeopardized

THEREFORE, the welfare of state banks and trust companies, as well as national banks, is dependent upon Section 5219 being unaltered. I understand that the tax commissioners of the various states, particularly from the Western states, are going down to Washington. I understand further, that they are heartily in sympathy with this proposed amendment to Section 5219. They are looking for more avenues of taxation. Banks are the easiest victims that any tax assessor can reach. The property of the banks is right out in the open. Assessors have no difficulty in discovering how much property

a bank owns. Individuals, if they are taxed too high can move away, but a bank is anchored, and banks are not essentially popular.

Now, what are the prospects of the passage of this bill? Within the last fifty or sixty years various attempts have been made to pass bills along this line, but owing to the conservative composition of the Committee on Banking, they never have been successful. At the present time the Chairman of the Committee on Banking in the Senate is Senator Norbeck. Let me give you a brief illustration of what we have in the State of New Jersey. For instance, we have there what we call a state tax on bank stocks. The tax now in the State of New Jersey is three-quarters of one per cent on our capital and surplus. In even a very small institution such as I happen to represent, the tax per share amounts to about \$4.50. We pay that for our stockholders.

If this provision in the present law, 5219, is removed and the State Legislature should want to change the rate of tax in the State of New Jersey from three-quarters of one per cent on our capital and surplus to three per cent, there would be nothing whatever to prevent them from doing it. They would then get three per cent from the state banks and they would also get three per cent from the national banks.

It seems to me this is a matter of very great importance. It is a matter that reaches our pockets, and it is a matter to which we should give careful attention, because "Old Man Overhead" will come along some day and make real "decedents" of some of our trust companies, and I trust, Mr. Chairman, that the Committee on Legislation of the Trust Company Division of the American Bankers Association in conjunction with the Legislative Committee of the National Bank Division will take some serious notice of this danger. Thank you very much.

CHAIRMAN PERKINS: Gentlemen, those of you who are gathered here at this conference are gathered here largely for the study of the problems involved in the handling of trusts. We are going to have a talk this morning from a man who has had a wide experience and has made a very careful study of trusts over a long number of years. It is with great pleasure I introduce Mr. Augustus Peabody Loring, who is going to talk on, "Some of the Unwritten Law of Trusts."

Some of the Unwritten Law of Trusts

By AUGUSTUS PEABODY LORING

Loring, Coolidge, Noble and Boyd, Counsellors-at-Law, Boston, Mass

JAMES COOLIDGE CARTER, lately a leader of the New York Bar, in his remarkable book, "The Law, Its Origin, Growth and Function," particularly stresses his theory that custom is not only the origin of the law, but in so far as custom is followed where it differs from the letter of the law, is really the law itself.

Hence the title that I have given to my address, because I wish to lay before you some of the customs which govern the action of trustees and are somewhat

at variance with the theory of law as laid down in decisions and statute, and which for the purpose of this address I have called, "The Unwritten Law of Trusts."

The Managing Trustee

TO BEGIN with, the law does not recognize a managing trustee. In theory a trust is a personal confidence, that is to say, the beneficiary has a right to

compel the individual who is trustee to perform the trust himself. He cannot turn over the whole trust to another, nor can he delegate any part of his duties or powers. His duty is to exercise the powers and discretion himself, and if he permits another to act in his place he does so at his peril, for the law does not recognize a passive trustee.

In practice it would be impossible, and it is generally unreasonably inconvenient, for all the trustees to join in the active management of the property; hence, provided that all the trustees exercise a general supervision over the trust affairs, and fulfill the purposes of the trust with ordinary care and diligence, they may permit one of the number to take the general custody and management of the trust estate. They would not be justified in placing the property wholly beyond their control, or in leaving the funds for an unreasonable time in the hands of their co-trustee or neglecting to exercise a reasonable oversight over his actions.

A distinction should be drawn between the management of income and principal—it being customary and probably justifiable for one trustee to collect and disburse the former, but not the latter; and a trustee who allowed his co-trustee to collect a large amount of principal and let it lie for an unreasonable time in his hands, would be liable for its loss.

An agent may be allowed to collect dividends and rents, and keep the books, and in general act for the trustees wherever there is a moral or legal necessity to employ an agent. Such a necessity exists where the ordinarily prudent man of business would employ an agent in his own affairs, as for example, employing a stockholder to purchase stocks, and paying for them through him. In such cases the trustee will not be liable for the default of the agent, but only for his care in selecting him; as again, for instance, a trustee who has employed a good conveyancer is not responsible for a flaw in the title which he overlooked.

The employment of one of the trustees or an agent in such cases is not a delegation of the trust, but is the lawful act of the trustees by the hand of another.

Care of Negotiable Trust Funds

THE Courts have not authoritatively settled whether one trustee may go alone to safe deposit vaults where the securities are kept, or whether all should go together. Mr. Justice Kekewich expressed his opinion strongly that negotiable securities should not be got at without the consent of all the trustees. In an earlier case Vice-Chancellor Wood said that it was too much to say that ordinary prudence required a box with three keys, and this latter dictum seems to accord more nearly with the general usage in this country.

It is undoubtedly the duty of all the trustees to examine the securities from time to time, and if they have any reason to distrust one of their number, not to allow him to have access to the property alone.

The same care should be taken of money, and it is customary to allow one trustee to sign checks alone.

Segregation of Trust Property

AN ANALAGOUS but somewhat different question arises as to whether the money of several trusts can be kept in one bank account, or the securities of more than one estate be kept in one box. It seems to me that such a proceeding is not only allowable, but even desirable. In the case of several trusts under one will, it would seem to be the height of technicality to insist on the segregation of the money and securities of the various trusts otherwise than by adequate book entries, which would identify the money or securities belonging to the several estates. Yet I have had such a course objected to by a zealous but rather technical *guardian ad litem*.

From a practical point of view, the economy and convenience of keeping the securities of a number of small trusts together seems equally obvious, and in one case at least has been approved by the Court, where the trustee was a trust company.

Division of Trustee's Compensation

THE old English doctrine was that the trustee was not allowed any compensation for his services, but this has never been the general law in America, and the trustee is allowed the highest rate paid agents, factors or attorneys for similar services. Naturally the trustee who does the work is entitled to more compensation than the trustees, who exercise a supervisory power merely; but as a rule, the Court allows a unit of compensation as a whole, and does not concern itself with how the trustees divide the compensation among themselves, which is usually a matter of custom or agreement. I have known the Court to interfere, where the trustees could not agree, and it undoubtedly has the power if it wishes to do so.

Up to a quite recent time it was customary in Massachusetts to allow a commission of five per cent, on the income of which the managing trustee took two-thirds, and the other third was divided equally among the other trustees. At the time of the war owing to the increased cost of office space and clerk hire the general compensation was advanced to six per cent, of which the managing trustee took three-fourths, as it was he that supplied the office and clerks, and one quarter of six per cent was divided among the other trustees, which gave them practically the same actual compensation they received before.

Where the work is actually performed by a firm of solicitors or incorporated fiduciary, or the estate is large and special offices and clerks are employed for it alone, the cost of management is charged to the estate, and reasonable compensation is allowed the trustees for their responsibility and management, not exceeding, when taken together, reasonable compensation, and in such cases is usually divided among the trustees equally.

Foreign Investments

NEARLY half a century ago, a Judge in a New York Court said that, "An investment which takes the trust fund beyond our own jurisdiction, sub-

jects it to other laws, and the risk and inconvenience of distance and of foreign tribunals, will not be upheld by us as a general rule and never, unless in the presence of a clear and strong necessity, or a very pressing emergency," as the Court decided existed in the case before them.

Obviously, the rule was meant to apply to the ownership of real estate or mortgages in other states, where the laws of taxation, liens and foreclosure might be different—it was at about the time of the farm mortgage craze—but the dictum was taken up by other courts and the text writers and made a rule of general application, viz.: that a trustee should not invest the trust fund outside of the jurisdiction in which he is appointed. Such a general rule is not upheld by authoritative decisions, nor, so far as I know, observed in practice. The courts of Massachusetts and Illinois whose rules for investment are more liberal than some of the other states, explicitly disavow the rule. Any practical trustee knows the impossibility of investing all the trust funds seeking investment in the State of New York in the securities subject to the jurisdiction of the New York Court, and the economic folly of doing so. State lines are not of the importance today that they were forty-seven years ago.

Investment Trusts

SO FAR as I am aware, the Courts have not yet passed on the legality of investing trust funds in the stocks of investment trusts. The question will not arise so long as such trusts are prosperous, and the case will not naturally arise in prosperous times and advancing markets where there is no shrinkage or loss in the investments. But the character of the securities and principles of management seem to violate some of the present principles of law governing trust investments. First, the trustee abdicates his discretion in the purchase and sale of investments to others; second, in every investment trust there are some securities which are not proper investments for trust funds; and third, there is the principle that trust funds should be under the sole control of the trustee and not held in common with others. Of course it may be said that he can sell his stock, but that begs the question of whether he ought ever to buy it.

When Should a Bad Investment Be Liquidated?

ONE more matter and then I will leave the question of investments. When should a trustee liquidate an investment which is going wrong?

It has been decided in Massachusetts that he must not extend a loan secured by a mortgage when the real estate has depreciated so that it fails to show the required margin of safety above the amount of the loan. A leading case in New Jersey has decided that if a trustee, in the exercise of a sound discretion, holds a security, originally regarded as a high class and safe investment, until it is too late to sell it, he will not be held for the loss. He is not required to watch the ticker, or take notice of abnormal conditions in the stock market.

But it would seem that if a company steadily loses ground and its condition deteriorates in ordinary and not panic times, that an investment in its securities should be liquidated. Of course if a trustee holds a bond or stock which ceases to pay its interest or dividends, in hopes of a rise in value, he is depriving the life tenant of his right to income on the speculative chance of a gain to principal.

It seems to be equally plain that if he holds a stock or bond which he could not properly buy, he is holding it as a speculation and not an investment.

The Trustee's Personal Relations with His Beneficiary

THERE are many trusts where the personal relations of the trustee to his beneficiary are not less important than the management of the trust fund. If the personal touch and discretion are lacking in such cases, the purposes of the settlement will fail.

Trusteeship establishes a relationship between the trustee and the beneficiary, not dissimilar to the relationship between a parent and a child. Something more than a guardian, because the trustee owns the trust property, and something less, because he has no legal control of the beneficiary's person.

As trustee I have been called upon to rescue the family name by exercising my rights as owner of the house to eject undesirable companions of a young male beneficiary from the family mansion. Acting in *loco parentis*, I have conferred with the College Dean and by planning a summer's work saved a boy's reputation and place in college.

As trustee under her father's will I have been called to break off an engagement of his charming daughter to a dissipated, worthless, but attractive youth, who was not oblivious to the pecuniary and social advantages of marrying my beneficiary.

I have taken a revolver and knife from a veteran of the Civil War, who had suddenly become troublesomely insane, because he expressed his intention to kill any deputy sheriff or other person who should presume to interfere with his liberty. And it was all in the day's work, and part of my duty as I conceived the duty of a trustee. But more difficult than this, I have tried to manage spendthrift trusts in such a way as to keep my clients from actual want and prevent their creditors from loss and perhaps ruin.

Spendthrift Trusts

I SHOULD feel that I had not taken the full benefit of my opportunity to address you, did I not bring to your attention a principle of law which has now become firmly established, but which seems to me to be morally unsound, and out of step with public policy and true democratic principles. I mean the spendthrift trust.

We are all wont to think of trust estates as the beneficent creation of a highly moral law for the protection of the weak and helpless; and the rules governing their administration as a code of disinterested integrity. We speak with bated breath of a "Sacred Trust." Please note what the great authority Mr. Lewin has to say

in the preliminary chapter of his monumental work on the "Law of Trusts." "The origin of trusts, or rather the adaptation of them to the English law, may be traced in part at least to the ingenuity of fraud. By the interposition of a trustee the debtor thought to withdraw his property out of the reach of his creditor, the freeholder to intercept the fruits of tenure from the lord of whom the lands were held, and the body ecclesiastic to evade the restrictions directed against the growing wealth of the church by the statutes of mortmain. Originally the only pledge for the due execution of the trust was the faith and integrity of the trustee; but the mere feeling of honor proving, as was likely, when opposed to self-interest, an extremely precarious security, John Waltham, Bishop of Salisbury, who was Lord Keeper in the reign of Richard the Second, originated the writ of subpoena by which the trustee was liable to be summoned into Chancery, and compellable to answer upon oath the allegations of his *cestui que trust*. No sooner was this protection extended, than half the lands in the kingdom became vested in feoffees to uses, as trusts were then called. Thus, in the words of an old counsellor, the parents of the trust were Fraud and Fear, and a Court of Conscience was the Nurse."

The same taint of fraud and fear that marred trusts in their beginning casts its baleful influence over them today in the institution known as the Spendthrift Trust, the principle of which briefly stated is that a person may settle property on anyone but himself and so fence it round as to secure the characteristics of right and enjoyment to the beneficiary and immunity from his creditors.

John Chipman Gray, a noted jurist, a remarkable teacher of the law and a successful practicing lawyer, writes in the preface to the second edition of his book, "Restraints on the Alienation of Property," "One of the worst results of spendthrift trusts, it is true, is the encouragement it gives to a plutocracy, and to the accumulation of a great fortune in a single hand, through the power it affords to rich men to assure the undisturbed possession of wealth to their children, however weak or wicked they may be." Hardly less evil is the result which allows the tradesman to be ruined by the non-payment of the debts of one to whom he naturally extended credit, seeing him live in luxury with apparently unlimited means in his control. If the Courts had deliberately attempted to establish a plutocracy and privileged class, they could not have devised a more effective method than the spendthrift trust. Nothing however was more distant from their minds. On the contrary, it was the desire to protect the weak from results of their helplessness, ignorance and improvidence that led to a result so unfortunate.

If the Courts have erred in tolerating spendthrift trusts, presumably there is a remedy to be found in the Legislature. I quote from Mr. Gray again. "If the remedy is like that applied in New York, it is, if not worse, more disgusting than the disease. One merit of the theory of the Common Law, whatever may have been its shortcomings in practice, was the absolute equality before it of the rich and the poor. How rich a party to a suit might be (save when necessary to determine the damages to the other party, as on a breach of

promise of marriage) was a question never asked in a court of justice.

"The Statutes of New York, as interpreted by the Courts, provide that the surplus of income given in trust beyond what is necessary for the education and support of the beneficiary shall be liable for his debts. The education and support to which any and every person is entitled at Common Law is an education at the public schools and a support as a pauper, and his father's history and his own history are matters of no consequence; but now, under the New York Statutes, as interpreted, all this is changed. The Court takes into account that the debtor is 'a gentleman of high social standing, whose associations are chiefly with men of leisure, and who is connected with a number of clubs,' and that his income is not more than sufficient to maintain his position according to his education, habits, and associations."

Again he says, "Were it not for an occasional dissenting opinion, especially an extremely able one of Chief Justice Alvey, late of the Court of Appeals of Maryland, I should be *vox clamantis in deserto*."

Mr. Gray has passed on and his voice is stilled, and so I add my feeble cry to his strong, but so far unheeded protest.

CHAIRMAN PERKINS: Gentlemen, I am going to take the liberty of just mentioning the fact that Mr. Loring's book, "The Trustee's Hand Book," is about to be published. It is probably the only book that has covered this subject in which we are most vitally interested. Copies may be secured from the publishers, Little Brown & Co., Boston, Mass.

I have an appointment I have to keep and I will ask Mr. Mechem to conduct the meeting from now on.

...Mr. Mechem assumed the Chair...

CHAIRMAN MECHEM: Gentlemen, you have just listened to one of the most human and the most inspiring and the most instructive talks we have ever had at one of these meetings, and I hope that all of you were impressed, as I was, with what character and integrity and personality can mean in this relationship of trustee and beneficiary. I hope Mr. Loring will not take it amiss or misunderstand me if I say that if all of the people in the United States who needed trustees could have Mr. Loring, there would be no necessity for trust companies.

One of the most difficult problems that we have to meet is the situation in which we find ourselves when designated as successor or succeeding trustees. We have immediately presented to us a problem which is a joint problem of policy and of law as to what our duties and obligations are with reference particularly to a review of what has been done by our preceding trustees. I say it is an important and difficult question for us to know to what extent there is any obligation or any reason of policy for us to review the actions of our preceding trustee, or to continue the policies with reference to that particular trust which have been inaugurated by our preceding trustees.

We are going to have that matter discussed for us this morning by another distinguished Boston lawyer, Mr. Ripley L. Dana. Mr. Dana.

Duties and Liabilities of Succeeding Trustees

By RIPLEY L. DANA

Pillsbury, Dana and Young, Boston, Mass.

MR. CHAIRMAN, Ladies and Gentlemen: Dr. Samuel W. Stratton, President of the Massachusetts Institute of Technology, recently told me he thought one of the chief reasons why the law seemed so unbusinesslike to businessmen was because lawyers so persistently used what he called the incomprehensible nomenclature of the law in discussing business problems. He was very earnest in making this statement. His feelings about legal nomenclature were the same as the feelings of the emotional evangelist from Arizona about Latin and Greek. This evangelist felt that too much money was being spent in this country in teaching ancient languages in theological seminaries. His idea was that a minister's job was to save souls and that ancient languages played no part in the soul-saving business. He felt so strongly about it that he came to New York, visited the trustees of the Carnegie Foundation, and tried to persuade them not to give any more money to theological seminaries where the ancient languages were taught. He wound up his argument before the trustees with this convincing assertion: "English was good enough for Jesus Christ; it ought to be good enough for us."

Having in mind the feelings of Dr. Stratton and the Arizona evangelist, I shall try to avoid as far as I can the use both of legal nomenclature and of the ancient languages in discussing with you this morning a few of the problems which frequently confront a corporate fiduciary, and some of the duties and liabilities assumed by it in becoming a successor trustee under a will or a deed of trust.

Fundamental Principles

EVEN under the keenly competitive conditions of today when it is obvious that if one corporate fiduciary refuses to take on a new piece of work, a dozen other corporate fiduciaries will be ready and anxious to do it, it is worth while in the long run for every corporate fiduciary to keep in mind the fundamental principles which underlie a trust relationship. A trust relationship is not the ordinary business relationship. Trustee and beneficiary do not deal with each other at arm's length. The beneficiary is entitled not only to the wholehearted devotion of the trustee to the beneficiary's interest, unhampered by thoughts of personal gain other than reasonable compensation for services rendered, but the beneficiary is entitled also to feel that the trustee is devoting itself to the beneficiary's interest in this way. Confidence in the trustee on the part of the beneficiary is a *sine qua non* of a successful fiduciary relationship between them.

Without such confidence no corporate fiduciary should undertake new business.

When a corporate fiduciary has the opportunity to become a successor trustee under a will or a deed of trust, it should consult with the beneficiary and with the co-trustees, if there are any, and unless it is plain that both the beneficiary and the co-trustees will be reasonably well satisfied with the appointment, the corporate fiduciary should not accept it. A study of the instrument creating the trust should be another condition precedent to a corporate fiduciary's acceptance of the trust. It should not undertake new duties blindfolded. The instrument creating the trust is the trustee's bible and its provisions must be followed. Unless the corporate fiduciary is sufficiently familiar with these provisions to adopt them as its law and gospel, it should not accept the appointment.

After a corporate fiduciary is satisfied that if it accepts the appointment it will live in an atmosphere free from suspicious doubts and jealousies on the part of both the beneficiaries and co-trustees, and that the provisions of the instrument creating the trust are such that a self-respecting corporate fiduciary can follow them, it should then consider what unusual responsibilities, if any, it will assume by accepting the appointment.

In Case of Depreciation of Assets

A RECENT decision of the Supreme Court of Massachusetts in the case of the State Street Trust Company against DeKalb points out some of the unusual responsibilities involved in such a situation. There a testator left his residuary estate to individual trustees with directions to invest in real estate mortgages. The individual trustees did invest a part of the estate in a real estate mortgage upon property which at the time was in a first-class residential district of Boston. About the time the mortgage matured, tenement houses began to appear in the neighborhood, but as the interest was being paid regularly the individual trustees made no effort to collect the principal. After a number of years the trust company was appointed successor trustee under the will and assumed the active management of the trust. Still the interest was being paid regularly, and it was not until default occurred more than ten years after its appointment that the trust company made any effort to collect the principal. It then foreclosed the mortgage, bought in the property and ultimately took a substantial loss, for which the court said it was responsible.

It was responsible, first, because it had not compelled

the predecessor trustees to reimburse the estate for the loss it suffered by reason of their sitting by and doing nothing while the value of the mortgaged property depreciated in value, and second, because it had carried the mortgage through several of its own accounts at the value appearing upon the books of the retiring trustees, which value was in excess of the market value of the property.

The case emphasizes the rule that a successor trustee should investigate the doings of the predecessor trustee and if it discovers improprieties involving liability on the part of the retiring trustees, it should make reasonable effort either by suit or otherwise to enforce that liability. But even with the warning of this case in mind, it is not easy for a corporate fiduciary to establish a practice which will avoid the danger. If an individual trustee tells a corporate fiduciary he is about to resign and asks the corporate fiduciary to become his successor, and the corporate fiduciary says it will be delighted to take on the work, but adds that after its accountants have overhauled the books of the retiring trustees, the corporate fiduciary as successor trustee will probably have to sue the retiring trustee, the chances are the retiring trustee will change his mind, withdraw the invitation and go across the street to another corporate fiduciary whose trust officer has more tact.

But even the tactful trust officer must watch his step. He cannot merely take on the job and assume that the doings of the retiring trustee have been proper. He must in some way safeguard his institution against the liability imposed upon the trust company in the DeKalb case, and he must do it in such a way that the retiring trustee does not take offense. He must display tact of the same quality used by the negro butler who blundered into the bathroom, found the lady of the house performing in the tub, and instantly withdrew, saying, "Pardon me, sir."

Accounts of Inter Vivos Trustees

IN those states where trustees' accounts can be finally settled by filing them in court and after citing in all interested parties obtaining the entry of a decree that adjudicates for all time the propriety of the trustees' acts as shown in the accounts, probably the best thing a trust officer can do under the circumstances is to say to the retiring trustee that the corporate fiduciary will be ready to assume the duties of office when the retiring trustee has made a final settlement of his accounts in court. Statutes permitting the final settlement of testamentary trustees' accounts in court are common, but statutes allowing the final settlement of the accounts of *inter vivos* trustees in courts are not common. Of course, any disgruntled beneficiary can readily enough proceed in a court of equity to compel an accounting from a trustee, but where there is no controversy between the trustee and the beneficiary, it is not easy to interest a court in the settlement of the account.

There are some instances where *inter vivos* trustees have succeeded in invoking the aid of courts of equity in allowing their accounts, but in most instances there were special facts which justified the court in taking the matter up. In most states there are no statutes dealing

specifically with the final settlement of accounts of *inter vivos* trustees. Probably this is true because until recently *inter vivos* trusts have not been common in this country, and because courts have had no incentive to assume the burden of passing upon accounts where no controversy existed. Judges are human and are no more anxious than the next man to potter over endless columns of figures. Legislation is what is needed. An *inter vivos* trustee, as well as a testamentary trustee, should be able periodically to square himself with his beneficiaries and with the world at large.

But in states where an *inter vivos* trustee cannot readily accomplish a final settlement of his account in court, what can a corporate fiduciary which wants to accept appointment as a successor trustee under an *inter vivos* deed do to protect itself against the dangers of not investigating thoroughly the doings of its predecessor? Probably the best thing it can do is to insist that the retiring trustees submit their final accounts to the beneficiaries and obtain from them their assent to the accounts and their release from all claims arising under them. If minors are involved, and the minors have no duly appointed guardians and it is not possible to obtain the appointment of a guardian *ad litem* to protect their interests, a successor trustee must either thoroughly investigate the doings of the predecessor trustees and sue them if need be, or else accept the appointment without investigation and run for luck. There have been a good many lucky escapes in the past. There probably will be in the future.

Appraisal of Property

ANOTHER point brought out in the DeKalb case is worth considering. The courts says a successor trustee should not pick up the values of the trust properties as they appear upon the books of the retiring trustee, and carry them forward through its own accounts. These values may be entirely out of line with market values. If the book values of the retiring trustees are higher than current market values at the time of the appointment of the successor trustee, and the successor trustee adopts those higher values and opens its books with them, it is in effect charging itself with those higher values, and unless market conditions recover it may well have difficulty later in persuading a court to allow it for losses resulting from depreciation in values occurring prior to its appointment. If the book values of the retiring trustee are lower than current market values, it may be a great temptation to the successor trustee to adopt those lower values as its own and to open its books with them. But it is a strange rule as well as a poor one that does not work both ways. No trustee can hope that a court will permit it to adopt the book values of the retiring trustee when they are lower than current market values, and to discard them when they are higher. No trustee can count upon the theory of "heads I win, and tails you lose." Every corporate fiduciary should make an invariable rule that upon its appointment as a successor trustee a new appraisal of the trust property shall be made upon the basis of current market values, and that it shall open its own books with those current market values.

Selling on a Falling Market.

ONE intimation in the DeKalb case was rather startling to Massachusetts trustees and lawyers. The court severely criticized the trust company because it did not sell the mortgaged property during the period while its value was declining. If this criticism carried with it the implication that trustees are always to be held liable for losses resulting from their failure to sell trust securities on a falling market, it is a new rule of law and one which requires a revamping of preconceived notions. For a hundred years it has been the firmly established law of Massachusetts that all that is required of a trustee in the investment of trust funds is to conduct himself faithfully and to exercise a sound discretion. He is to observe how men of prudence, intelligence and discretion conduct their own affairs when investing, not speculating, with their own funds, and he is to do likewise. In deciding whether to sell trust securities on a falling market, he is to make a careful investigation, to seek information from trustworthy sources, and to exercise his best judgment in accordance with the facts as he finds them. Having done these things, if his decision is wrong and the trust estate suffers a loss, he is not personally liable. But in the DeKalb case, the court stresses the fact that the trust company failed to sell securities on a falling market and in part at least bases its liability upon that fact. The truth is that in the trial of that case the trust company offered no evidence whatever as to why it decided to hold the mortgaged property during a period of declining values after it had received the report of a real estate expert to the effect that the property ought not to carry so large a mortgage. The evidence introduced at the trial pointed more toward a failure on the part of the trust company to exercise any judgment at all than toward the exercise of a sound judgment based upon the best information at hand. Furthermore, it was real estate, not stocks and bonds, that was the subject of the decision. It is true enough that the general rule which requires a trustee to exercise sound judgment, prudence, and intelligence in dealing with trust property, applies as well to trusts comprised of real estate mortgages as to trusts comprised of stocks and bonds. Yet it is a fact that a falling real estate market is much greater evidence of a permanent decline in values than is a falling securities market. When stocks and bonds go off a few points it is no more evidence that they are going lower than that they will recover in a short time. It is clear the court in the DeKalb case did not intend to change the long established rule of law with respect to the duties of a trustee in selling trust securities on a falling market.

The Villard Case

THOSE of you who are familiar with the New York decisions will recall the Villard case. Henry Villard left a will directing his executors to turn over to The Farmers' Loan & Trust Company a sum sufficient to provide for certain annuities. The will provided that the trust company as trustee might hold in the trust estate any securities owned by the testator at the time of his death. The executors found a considerable amount

of cash in the estate. They invested part of it in Baltimore & Ohio preferred stock and part of it in Metropolitan Street Railway common stock. They then tendered these securities to the trust company in payment of the trust legacy. The trust company accepted those securities and held them for a number of years. During this period the value of the Baltimore & Ohio stock depreciated substantially, and the stock of the Metropolitan Street Railway Company became worthless. The trust company did not know when it accepted these stocks that they had not been owned by the testator at the time of his death. Nevertheless, the New York court held the trust company liable for the full loss which resulted from its retaining these securities during the period when their values depreciated. But the law of New York is much narrower than the law of Massachusetts with respect to what are legal investments for trustees. In the absence of specific authority in a will, a New York trustee cannot invest in or hold stocks. A Massachusetts trustee can. The Villard decision was based upon these facts—that under the New York law no trustee can properly invest in or hold stocks without specific authority from the instrument creating the trust; that the provision of the Villard will permitted the trustee to hold only those stocks which were owned by the testator at the time of his death, and that the testator did not in fact own either Baltimore & Ohio or Metropolitan Street Railway stocks when he died. In the light of these facts the decision is a sensible one.

It is interesting to note that although the Massachusetts law and the New York law are very different with respect to what are legal investments for trustees, the laws of the two states are the same with respect to the duties of trustees in selling or refraining from selling trust securities on a falling market. In neither state is a trustee which properly holds securities, liable for loss resulting from his failure to sell those securities on a falling market, provided that in reaching his decision not to sell he has carefully investigated the facts and has honestly exercised his best judgment.

Complete Records

IN addition carefully to investigating the facts and exercising its best judgment, if a corporate fiduciary would escape liability for losses resulting from its failure to sell securities on a falling market, it should keep such records of its doings that a dozen years after the occurrence of the events it can prove that it made the investigation and exercised its judgment. The ability to prove that it did the right thing is as a practical matter fully as important as the doing of the right thing. A corporate fiduciary can take little consolation from the knowledge that it did the right thing if at the same time it has to pay damages because it cannot prove that it did the right thing. It is easy enough for a trustee to keep records of its affirmative acts. If a trustee sells securities it almost necessarily has a record of those sales, but if it decides not to sell it is much more difficult to keep a record of that decision. It is the negative decisions that cause most of the trouble.

A corporate fiduciary which manages a few trusts of small size ought to have little difficulty in keeping a

complete record of both its affirmative and its negative acts, but a trust company which manages hundreds of trusts aggregating millions of dollars must necessarily make a great many decisions both negative and affirmative every day, and if it would avoid having its records rival in volume the records of the County Clerk in a metropolitan district and at the same time include all its negative decisions, it must indeed have a most perfect system of records.

It is a simple thing for a lawyer who wants to have available the best possible evidence in order to defend successfully his corporate fiduciary client against all suits brought against it, to say that records of everything must be kept, but it is quite a different thing for that corporate fiduciary's executive officers who are charged with the duty of keeping the machinery of the trust department in motion to follow that advice. A trust department, like the other departments of a bank, is subject to the general supervision and control of the board of directors. But a board of directors composed of thirty-five or forty men actively engaged in their own business and not giving anything like their full time to the affairs of the bank cannot be expected to delve very deeply into the affairs of the trust department, nor can they be expected to give sufficient time even to pass upon such important matters as the investment of trust funds.

Supervisory Investment Committee

CONSEQUENTLY, the active supervisory management of a trust department is ordinarily vested in a committee called varyingly an Investment Committee, a Trust Committee, and an Executive Committee. The composition of this committee varies as much as its name. Sometimes it is composed only of directors; sometimes it is composed only of executive officers of the bank; sometimes it is composed both of directors and of executive officers. But however it is composed, it is the committee, which determines the general policies of the trust department, which fixes the classes of securities approved for investment, which establishes the rules for securing the necessary diversification of investments, and which sometimes lends the names of its members for advertising purposes in order that the public may know the manner of man who burns the midnight oil in order to determine whether the widow's mite shall be invested in Liberty bonds or deposited in a savings bank. But even with a committee of this sort, the actual carrying on of the business of a trust department necessarily falls upon the shoulders of its executive officers. It is they who, always within the limits fixed by the committee, purchase the securities for the different trusts. It is they who decide whether or not securities held in the trusts shall be sold or retained. It is they who have the personal contacts with the beneficiaries. It is they with respect to whom the old story of the glass eye must have no application. You remember the story. A man went into a bank to borrow money. He talked with one of the officers. The officer had a glass eye. The officer said to him, "If you can tell me which eye is real and which eye is glass, I will make the loan." The man looked at the officer steadily for a few moments and said, "Your right eye is real; your left eye is glass."

He was right. The officer was surprised. He said, "Tell me how you could guess so accurately?" The prospective borrower said, "I thought your left eye was a little more sympathetic."

Statistical Department

THEN there is usually the statistical department whose job it is to gather up-to-date information about all corporations, any of whose securities are held in any of the trusts, and there are the liaison officers whose duty it is to see that whatever is known by anyone of the trust department is known by everyone of the trust department.

The machinery of a trust department is necessarily complicated and no standardized system of records will fit the requirements of every trust department; each must work out its own salvation. A few guiding principles only have general application. The records should be records of actual happenings. The records should include both affirmative and negative happenings to such extent as is consistent with the department's properly meeting the demands for service which are made upon it. The records should be kept with a view to use not only in the ordinary business of the department, but for use as well in self-defense in case of attack by lawsuit, or otherwise.

Bank Consolidations and Mergers

ONE more point only and that point does not involve in a strict sense a successor trustee, but perhaps it does involve what may be called a quasi-successor trustee. This is an age of bank consolidations and mergers. The notion appears to be general that to be successful and useful a bank must be big. So little banks are trying to become big banks and big banks bigger ones. And the easiest way for a bank to become bigger seems to be to buy another bank and so weld it on to itself that its business becomes part of the business of the first bank. This is also an age when a good many people make wills and live a good many years after they make them. If a person makes a will and names a trust company as his executor and trustee and lives long enough, it is a pretty safe bet that when he dies that trust company will not be doing business—at least under the name under which it was going business at the time the will was made. The question will arise as to whether the bank which has acquired the business of the bank which was named as executor in the will can be appointed executor and trustee under it. The question has already been raised a number of times and in a number of states.

Not long ago the Morton Trust Company was named as executor in a will. Soon after that it was merged under the New York Banking Law into the Guaranty Trust Company. Upon the death of the testator, the Guaranty Trust Company sought appointment as executor. The New York court said that the designating of the Morton Trust Company as executor gave to it an inchoate interest under the will, which by virtue of the merger statute passed to the Guaranty Trust Company, and that the Guaranty Trust Company was entitled to appointment.

The Massachusetts Point of View

THE same result has been reached in Illinois and in Pennsylvania, but the Massachusetts court has a somewhat different point of view. Not long ago the Commonwealth Trust Company of Boston was converted into the Commonwealth National Bank and the Commonwealth National Bank and the Atlantic National Bank were consolidated into the Commonwealth-Atlantic National Bank. Prior to the conversion and consolidation, a testator had named the Commonwealth Trust Company as his executor. Upon his death the Commonwealth-Atlantic National Bank petitioned the court for appointment as executor. The Massachusetts court said it was not entitled to appointment. It said that the testator had named the Commonwealth Trust Company as his executor; that the Trust Company was a corporation organized under the laws of Massachusetts; that the Commonwealth-Atlantic National Bank was a banking association organized under the laws of the United States; that they were different corporations and that only the corporation which was named in the will was entitled to the appointment.

Whether the view expressed by the New York Court or the view expressed by the Massachusetts Court will ultimately prevail cannot be foretold. If the banks which consolidate or merge and the bank which results from the consolidation and merger are all corporations organized under the laws of the same state, there is no reason why the legislature of that state cannot provide by the statute that the entities of the consolidating or merging corporations shall be continued in existence in the corporation which results from the consolidation and merger; and under such conditions there would be no sound legal objections to the resulting bank's acting as executor under the wills in which one of the consolidating or merging banks was named. But there would be great legal objection to reaching the same result if the consolidating or merging banks and the bank which results from the consolidation and merger are not all organized under the laws of the same state. The same objection would hold true in connection with a state bank which is converted into a national bank. It is hard to see how a bank organized under the laws of one state can be the same corporation as a bank organized under the laws of another state, or how a state bank can be the same corporation as a national bank. A will is utterly ineffective so long as the testator lives. The testator can change it whenever he pleases and without the consent of any person or corporation which has been named an executor in it. If a testator can so readily change his will, it is a little puzzling to see how a court can hold that the mere designation of a trust company or a person as an executor in a will, which can be revoked or changed without that person's or corporation's consent, can give any property right—inchoate or otherwise—to the bank or person which has been so named; and if that bank itself acquires no property right, it is still more difficult to see how it has anything which it can transfer to or which can be acquired by another bank.

Massachusetts Decision Convincing

IT seems to me the logic of the Massachusetts decision is convincing. At all events, it is good judgment for any bank which absorbs another bank and has in mind that it will thereby acquire the future trust business of the bank which it absorbs, to see to it that as many of the persons who have named in their wills the absorbed bank as executor and trustee, make codicils to their wills, or make new wills substituting the absorbing bank for the absorbed bank.

In spite of the fact that a corporation has no soul, it is true that a good many corporate organizations do have an indefinable personality. Perhaps it is merely the development from something small into something big. Perhaps it is the founder's conception of sound business, expanded and enlarged into an organization permeated with the founder's business ideals and strengthened by the practices, customs, and traditions of a generation passed and a generation present. Whatever it is, it is worth having. Some corporate fiduciaries have personalities of this sort. They are the corporate fiduciaries which serve their communities best and in so doing best serve themselves.

CHAIRMAN MECHEM: That is a very interesting discussion of a matter which is of very great moment and importance to all of us. Mr. Dana has been courteous enough to say if there are any questions which any of you wish to ask him from the floor, he will be very happy to answer them.

A DELEGATE: What do you think of a provision like this: I hereby appoint the blank trust company as my executor and trustee, or its successor in case of consolidation or a merger with a national bank?

MR. DANA: I think such a provision, if properly worded, will accomplish much. It requires careful wording, but if the phraseology is right I think a bank which succeeds to the business of the bank which is named in the will would be entitled to appointment.

When a National Bank Succeeds a State Bank

A DELEGATE: If a state bank, acting as executor under a will, is succeeded by a national bank, how can the national bank continue to act as the executor in place of the state bank it succeeded?

MR. DANA: I think there is a difference between a national bank's succeeding to the business of a state bank in connection with wills which have not yet been probated, and wills which have been probated. I think where a state bank has been named as an executor in the will and the testator has died and the will has been allowed and the state bank has been appointed and is actually acting as executor, that that state bank by reason of its appointment has acquired certain definite rights under the will, and when it is converted into a national bank it has a property right which under the law may be said to pass along to the national bank. I think probably it is good judgment under such circumstances for the national bank which acquires the state

bank to seek its own appointment as a successor of the former. I think in most cases the court would allow such appointment.

DELEGATE: In a recent consolidation with a national bank and a trust company, they purchased another national bank. While the loans of the trust company were taken over into the national bank, the savings account and trustees' business was taken into the trust company. Why was that?

MR. DANA: It probably depends upon the statutes under which the consolidation took place.

DELEGATE: It took place in Pennsylvania.

MR. DANA: I think it depends upon the peculiar wording of the Pennsylvania statutes and without read-

ing them and examining the papers under which the consolidation was accomplished, I cannot answer your question.

CHAIRMAN MECHEM: Gentlemen, the next topic on the program this morning is, "Self Revelations in Wills." Self revelation is a dangerous thing; it is a luxury, I think, if not a vice. Most of us who have made *inter vivos* self-revelations have been sorry afterwards when those revelations came back to bother us. It is a little safer to make self-revelations in wills at least because the self-revelator will not be here when these revelations do come back. This subject is going to be reviewed for us this morning by our very good friend and associate, Gilbert T. Stephenson. Mr. Stephenson.

Self-Revelations in Wills

By GILBERT T. STEPHENSON

Vice-President, The Wachovia Bank and Trust Company, Raleigh, N. C.

A WILL is the only permanent expression of himself that the average man leaves to posterity. Few men immortalize themselves in the books they write, or the songs they sing, or the pictures they paint, or the statuary they fashion. But the man who makes a will that is later probated, however inconspicuous he may be, makes a contribution to the literature of the ages. The original of every probated will becomes a public record open to the perusal of the whole world. In olden times wills were sometimes chiselled on stone; in later times they were inscribed on parchment; today, though they are written on less durable materials, they are preserved in fireproof vaults. Because of the care with which they are preserved, they constitute a considerable portion of our ancient literature. Mr. C. B. Royce of the Brooklyn Trust Company, in a paper read at our 1927 Mid-winter Conference, stated that there are at least three extant wills over 4,000 years old, one of which is so curiously modern in form and so plainly expressed and properly witnessed that it might almost be probated today. Historians trace the progress of civilization in wills that have survived the ravages of time. The man who makes a will should understand that, though he may change or destroy it during his lifetime, his last will will be a permanent contribution to literature. By it he erects a monument to himself more lasting than bronze; for, having once been admitted to probate, his will cannot thereafter be changed by so much as one jot or tittle. Of one's last will it may be said,

"The moving finger writes; and, having writ,
Moves on: nor all your piety nor wit
Shall lure it back to cancel half a line,
Nor all your tears wash out a word of it."

Will More Than Disposition of Property

A WILL is more than a set of written instructions about the settlement of an estate and the division of property. There is almost no limit to what else one

may include in it. Wills vary in length from a few lines, like that of Woodrow Wilson, to many pages, like that of George Washington. They vary in substance from impersonal distribution of property to passionate expressions of affection, appreciation, and gratitude at the one extreme and equally passionate expressions of distrust, enmity, and revenge at the other.

Will As Revelation of Best and Worst

IT follows that one's will may be a revelation of his best or of his worst self or that it may be a colorless, impersonal division of property. The circumstances under which modern wills are made conduce to colorlessness. They are now dictated, typed, signed, and witnessed in a lawyer's office in the regular course of business; whereas they used to be written out in long-hand in the home where sentiment always guided and sometimes controlled the testator's hand. But even modern facilities and ideas have not stripped wills of all their revelation of the individuality and personality of testators. The records of wills in any probate court constitute a library of intensely interesting autobiographies in which some men reveal themselves at their best and others reveal themselves at their worst.

Religious Faith

A WILL may reveal the religious faith of the testator. One testator directs that his burial shall be without religious ceremony. Another,—this one, the elder J. Pierpont Morgan—makes this confession of faith: "I commit my soul into the hands of my Savior in full confidence that, having redeemed it and washed it in His most precious blood, He will present it faultless before the throne of my Heavenly Father; and I entreat my children to maintain and defend at all hazard and at any cost or personal sacrifice the blessed doctrine

of a complete atonement for sin through the blood of Jesus Christ once offered and through that alone."

Domestic Relations

A WILL may reveal the relation that exists between a husband and wife. One testatrix states in her will that she makes no provision for her husband because he has been unfaithful to her. A testator leaves none of his estate to his wife because, he said, his marriage had not been productive of the happiness he had anticipated. Another testator,—this one, Col. William Freeman Vilas, formerly President of the Central Wisconsin Trust Company—said, "My dearly beloved wife has full knowledge of this will, participates in all the desires and purposes of it equally with myself, and accepts as entirely satisfactory the provisions made for her. Were her desires different, the provisions herein made would have met them; for, as we have lived in affection, our last wishes are in concord."

Mrs. Anna Gorgen of Wyoming said in her will, "This will is made in conformity to the mutual desires and wishes of my husband, the late Peter Gorgen, and myself, as a result of long and earnest consultations during his last illness, and in thus dedicating our property to the purpose above stated, I do that which he long desired and planned, and which I solemnly promised him I would carry out after his death. This little fund was earned by hard labor and self-denial during our lives in Johnson County, and we desire that it shall be used for the benefit of Johnson County children."

Feeling Towards Children

A WILL may reveal the relation that exists between a parent and child. A father stated that his daughter should have no part or share of any kind whatsoever in his estate "for reasons well known to her." Another father disinherited his daughter because she married against his wishes. When he died the unwelcome son-in-law was the only member of the family capable of settling the estate and he was magnanimous enough to overlook the affront in the will.

Another father—this one the founder of one of America's greatest mercantile enterprises—thus revealed in his will an aching and anxious heart for his only son, "The health of my only son has long been a subject of deep solicitude to me. Never the possessor of a strong constitution, he has suffered much from illness, and is at times compelled to make his own physical well being almost his chief concern. With this in mind, it is my aim to make my provisions for his benefit in such form as shall lighten as far as practicable his burdens in the care of property."

Relations With Associates and Employees

A WILL may reveal a man's relations with his associates and employees. One testator makes no mention or provision in his will for anybody but the members of his immediate family—"Me and my wife, my son John and his wife, we four and no more." Other testators—and their name is Legion—not only make gifts

to associates and employees but, what is better, leave expressions of appreciation and gratitude for friendships enjoyed and services rendered. The late Edward A. Woods, of such tender memory to trust men as well as life underwriters, left to every household employee who had been in the service of the family for more than two years \$100 for each year he had been so employed with the family. The following are some of the expressions found in wills, recently probated: to the family physician, "in appreciation of his many kindnesses to me"; to a kinswoman, "in memory of her kind and faithful services to my mother"; to another, "as a token of love and esteem"; to a friend, "as a token of my esteem and appreciation of his friendship"; to a servant, "as a special remembrance on account of his long service"; to another servant, "who has faithfully served me and my family during my entire married life"; to several nephews and nieces, "in recognition of their unselfish and devoted patriotism in the Great War." Such expressions as these are cases in a desert of impersonal bequests and devises.

My neighbor had for a gardner an old colored man who is the warm friend of my young son. Jimmy sits at the feet of Uncle Tom as Paul sat at the feet of Gamaliel. It is a beautiful relation that exists between the little white boy and the old colored man. Uncle Tom's weather signs, remedies and philosophy, relayed by Jimmy, have become a part of our daily table-talk. I helped my neighbor prepare his will in which he made ample provision for the old gardner. Then my neighbor died. The grief of no member of the family was more genuine than that of Uncle Tom. Jimmy went over to see him and came back, himself distressed because Uncle Tom had said that he did not know what he would do now that "Fesser"—relic of the day when my neighbor was a college professor—was gone. I sent for Uncle Tom at once, even before the family knew the contents of the will, and told him that "Fesser" had taken care of him in his will. I have opened and read many a will, but never a one that contained a gift that carried more joy to a human being. Uncle Tom has little need of the trust created for him, for the family will take care of him as long as he lives; but the fact that "Fesser" had remembered him in his will filled the old man's heart to overflowing. I trust the spirit of my neighbor was hovering near when I broke the news to Uncle Tom.

Community Spirit

A WILL may reveal a citizen's attitude towards his community. One testator disposes of his estate as if he alone had created it and his community had had no part in it. Another, after making provision for his family and dependents and friends and associates and servants, gives back to his community the residue of the estate that it has helped him create. Of the wills I have analyzed, one-third contain gifts to community objects varying in amount from a few dollars to thirty million dollars. Most men make their gifts to the community without any expression of the motives actuating them. But a few still leave fine expressions of public spirit. One testator thus began a will disposing of an estate of

many million dollars, "I _____ of _____ contemplating the end of life and earnestly hoping that —after they to whom, with our lost loved ones, I owe my chiefest happiness in life, shall have enjoyed all the reasonable use and benefit possible to them from my means—I may be able so to direct the accumulation of my labors as most to contribute to the welfare of my fellow-men in time to be, do make, publish, and declare this my last will and testament." Another said, "While not endorsing fully the views of Mr. Andrew Carnegie in his Gospel of Wealth to the effect that if one dies with a fortune he dies disgraced, I do believe that the man who is allowed to live to the age of sixty, or perhaps between fifty and sixty, according to how active he has been in his work, and has accumulated a fortune, does not fully appreciate the value and duty of such an accumulation if he does not administer upon his estate during his lifetime. As I have followed this idea and have retained out of my estate barely enough to produce income sufficient to meet my expenses including my yearly charities, I hereby give, devise, and bequeath to _____ Trust Company _____ all the rest, residue and remainder of my remaining estate . . . in trust" for charitable purposes. Then follows trusts for relieving suffering and distress and for the care of young children and the helpless and afflicted.

Another generous man, after providing for the establishment of a home for women, adds this noble but pathetic sentiment, "My purpose is to endow and dedicate to humanity a home for indigent old women, who otherwise would be forced to spend their declining years in want and misery. This purpose I have cherished for many years. I have been fortunate in that from a boyhood of poverty I have attained considerable wealth. My wife is dead. My only living child has been and must always be sadly afflicted physically, with no need for anything save the means of physical comfort and providing for him kindly attention, and that I have herein secured to him. My granddaughter is given by this will all that I consider should be the portion of any girl or woman, and should she leave issue, it is provided for. At the same time I have amply provided for her mother with whom she lives. I feel that _____ City and _____ County where I have lived the greater part of my life and which has been the scene of my activities and success deserve the generous disposition I hold for them."

Beneficent Silences

HERE, side by side, in striking contrast are revelations in wills of men at their worst and at their best. A will need not contain a confession of religious faith; but certainly no good purpose is served by making it a vehicle of doubt or denial of religious faith. An outraged wife need not make generous provision for an unfaithful husband; but certainly no good purpose is served by blazoning his infidelity from the housetop. One may be justified in disinheriting a child; but no good purpose is served by calling the attention of the world to the unfortunate circumstance. One need not make of every friend and associate and employee a beneficiary under his will; but he may well leave to each of

them as an heritage some token or expression of gratitude, for "gratitude is the fairest blossom which springs from the soul, and the heart of man knoweth none more fragrant."

To the testator who is tempted by disappointment or pique or envy or jealousy or revenge or by any other evil spirit or mood to write into his will sentiments that are unworthy of his noblest moments, I would suggest that he take to heart these words of Joseph Jefferson in his autobiography, "I have seldom had occasion to regret my silences."

The Lawyer's and Trust Man's Parts

IN theory, in the making of a will the function of the testator is to think out for himself his testamentary desires; of the lawyer, to express them in legal phraseology; and of the trust man, to see that, as a practical matter, they lend themselves to accomplishment. In practice in the making of a will both lawyer and trust officer usually have a large part in drawing out and shaping the testamentary desires, themselves. The testator knows only in a vague and general way what he desires. He expects of his lawyer and trust officer advice and guidance about the substance even more than about the form and administrative provisions of his will. The lawyer or trust officer who holds his service within theoretical limits misses his supreme opportunity for doing good in the field of fiduciary practice.

At our last Mid-Winter Conference I presented one hundred questions about wills, trusts, executors and trustees that the man on the street is actually asking of those who solicit trust business, with the hope of presenting the point of view of that man. Later in the year, for the Committee on Publicity of the Trust Company Division I tried to answer those questions in such language as the man on the street can understand. Today I take another step in behalf of the man on the street by suggesting that lawyers and trust men use their influence, great as it is, to improve the quality of wills by suppressing the bad and encouraging the good impulses of their clients. Let the evil that they would do be interred with their bones; let the good that they would do live after them.

CHAIRMAN MECHEM: I have noticed that Mr. Preston has just come into the room. We would like it very much if he would come up here and say just a word to us. Gentlemen—The President of the American Bankers Association!

... The members arose and applauded ...

MR. THOMAS R. PRESTON (President, Hamilton National Bank, Chattanooga, Tenn.): Mr. Chairman, Ladies and Gentlemen: It seems a sin for anyone to cut in on this interesting program, but I am delighted to have been with you this short time. I was sorry that I couldn't have been with you through all your sessions. I think if there is any class of people in the United States who are really doing good for their country, it is those who are engaged in trust business. I congratulate you upon what you have done and I believe I am safe in saying that you are building far into the future. Yours will be the guiding hand for all the banks. It is only a question of time until all

the banks are going to have to take up the trust business. I am glad to be with you here today and I beg your pardon for interrupting you for this brief moment. (Applause)

CHAIRMAN MECHEM: Ladies and Gentlemen, we have a few more moments at our disposal. If any of you wish to ask any questions you are privileged to do so.

DELEGATE: There was an article in the January issue of Trust Companies Magazine about testamentary life insurance trusts. It was written by a Boston attorney I believe, in which he suggested that the policies be made payable to the trustee named in the will. I would like to know if that is being done and how practical that is in New York State?

CHAIRMAN MECHEM: I didn't see that article. That seems an unusual statement. I would like to ask some member of our Committee on Insurance Trusts to answer that question. Is there anyone present who is a member of the Committee on Life Insurance Trusts? (No member present).

Will some one of you gentlemen from one of the New York trust companies, who is more familiar with the particular applicability of the New York law, answer that question? In Illinois, that is not a thing we would think of doing. (No response). With all the legal talent of the trust companies of this great city, they seem to be strangely absent at the moment. (Laughter)

DELEGATE: I am willing to withdraw the question. The question I had in mind was in connection with the testamentary life insurance trust. I will give you a brief outline of what this article stated. This attorney suggested that the policies be made payable to a trustee named in the will and thereby make it a probate trust to be outlined in the will. No trust agreement need be executed at the time the policies are made payable to the trustee.

I discussed that with an attorney in our city just slightly. He raised the point that there is no trustee, of course, until the death of the testator and the will is probated, and he wondered how there could be a contractual relation with a trustee that is not in existence, but according to this article (I saw it in the January number), this man said he had drawn such a will with the policies made payable to the trustee named in the will. In this way the proceeds of the policies would not be subject to the administration expenses of the estate; that it would just place the proceeds in the trust, and that it would also not be any more subject to taxes than if it were made payable to a named beneficiary. It seems to me that is quite an important affair and I would like some opinions on it.

CHAIRMAN MECHEM: I can't answer that question in view of the difference in the New York law and the Illinois law. I can say only from our experience in Illinois, that there would be some difficulty in persuading the insurance companies to issue a policy in that form, particularly those companies that want copies of the trust agreement. We would feel in Illinois also that we are taking a very serious chance on the matter

of our state inheritance tax. From a practical standpoint, I would say it was poor business.

MR. J. H. MILLAR (Trust Officer, Mercantile Trust and Deposit Co., Baltimore, Md.): I have found something even more questionable. In Baltimore there are some life insurance companies which have been advising the assured to make his policy payable to the trust company as trustee where there is no trust even in existence. I think it is due to the fact that the life insurance companies have not been sufficiently informed in this matter. I have endeavored as far as possible to combat that, but nevertheless I know it is being done. Of course, you can see what would be the result.

CHAIRMAN MECHEM: That seems a very curious thing to do, because I know that is one of the things we are particularly careful about—that we shall not be named as beneficiary in a policy until a trust agreement is actually executed, so that we shall not find ourselves in the position of funds with no trust agreement governing them.

DELEGATE: Answering the gentleman who spoke previously I don't believe it is a matter that is entirely controlled by the New York law. It seems to me there is one insuperable difficulty in making insurance payable in that way. Supposing the man who drew the will named a trustee and had the misfortune after death to have his will set aside, there wouldn't be any trustee and you would be in an endless difficulty to determine where the funds were to go. We have had a number of cases where lawyers have tried to do that and so far we have refused to consent to such an arrangement where we are going to be named as trustee in the will.

CHAIRMAN MECHEM: That is very wise, I should say.

DELEGATE: A gentleman died appointing a trust company as trustee under his will. He had some bad insurance advice. All his insurance was payable to his trustee. The Probate Court Commissioner in this case held the insurance was payable to the estate.

CHAIRMAN MECHEM: Therefore, in Michigan, it was subject to the state inheritance tax?

DELEGATE: The same thing occurred in Ohio. There was no case on the subject, but there was an opinion of the Attorney General to that effect if the insurance was so payable. So in every case where we want to combine the estate and the insurance estate, we always draw separate insurance forms providing in the will that the estate is to be left in trust to be added to the trust under the insurance.

CHAIRMAN MECHEM: Isn't it like a lot of other things, that the safest thing for us to do, if we can, with life insurance trusts, is to keep the situation simple, well within rules of law that we know about, so that we are not going to get ourselves, or our beneficiaries, or our estates into litigation?

If there are no further questions, ladies and gentlemen, we will adjourn.

(Adjournment)

SIXTH SESSION

Thursday Afternoon, February 16, 1928

Mr. Mechem presiding.

CHAIRMAN MECHEM: Ladies and Gentlemen, we will call to order the afternoon session.

As is quite appropriate, our final regular session this afternoon is to be devoted to various aspects of the investment problem. Our first talk will be, "Investment Powers—From the Standpoint of the Fiduciary," by Mr. Raymond H. Trott, Vice President of the Rhode Island Hospital Trust Company, Providence, R. I.

Investment Powers From the Standpoint of the Fiduciary

By **RAYMOND H. TROTT**

Vice-President, Rhode Island Hospital Trust Company, Providence, R. I.

MR. CHAIRMAN, Ladies and Gentlemen: Defining as they do the very essence of trusteeship, the rules governing the investment of trust funds are of primary importance. There is no general rule governing trust investments in this country unless perhaps one might mention that broad general principle that the trustee must at all times act with the highest degree of good faith and the judgment and discretion of the reasonably prudent business man. Let me say here that in my opinion it is quite possible that the trust company soliciting business at it does may be held to a degree of skill in the handling of its trusts not expected of the individual and not heretofore held to be pertinent by courts in determining liability.

The two great sources to which the trustee must look are the laws of the state having jurisdiction over the trust and the terms of the instrument under which the trustee is acting, and in no sense are these sources to be regarded as mutually exclusive, but must be held to be mutually dependent. There is of course a third source to which the trustee may turn for guidance and that is the court having jurisdiction. Possibly it may be said that trustees should be more ready to turn to the court than sometimes seems to be the case. Judicial sanction will protect the trustee and judicial process safeguard the corpus of the trust.

Diversity in the Law

THE laws of the several states relating to the investment of trust funds are by no means uniform and vary widely both in terms and in scope. The trustee administering a trust, the situs of which is a state other than his own, ought always to examine the laws of the state having jurisdiction over the trust. Thus trust companies administering trusts in several jurisdictions find themselves acting under different laws, necessitating in some instances different types of investment.

It will be interesting to look for a moment at the laws of England because the rules as defined by the English courts form the basis for the laws of our various states. In one of the leading English cases it was said that a trustee ought to conduct the business of the trust in the

same manner that an ordinarily prudent man of business would conduct his own. The English courts, however, greatly restricted the application of this rule. This rule is being generally followed in this country, but in its application the statutes of many states restrict the trustee. In 1889 an act was passed in England setting forth the securities in which trust funds might be invested. This act, with the necessary changes to meet changing conditions, is in force today. The success of trust administration in England under this act serves as an argument for those who advocate a uniform act governing the administration of trusts in our different states.

In this country we have the State of Massachusetts on the one hand, where what might be defined as "the rule of the reasonably prudent man" prevails, and on the other hand, let us say, New York where the trustees may invest only in a very restricted list of bonds and mortgages. The latitude allowed the trustee in Massachusetts, however, is not the general rule, and most states hold the trustee to a limited list of investments. Many states define investments legal for trust funds and those legal for savings banks as being in many respects the same. There is, however, a growing demand to broaden the list of legal, and many legislatures are now doing so.

Wide vs. Limited Powers

IN considering the duties and limitations of the trustee in the investment of trust funds, it is to the instrument creating the trust that we generally turn. Generally speaking, it may be said that the maker of a will or the creator of a trust may give as little or as much power over investments to the trustee as he wishes. One may give the trustee absolute discretion or one may limit specifically or, in the absence of specially granted powers, hold the trustee to the laws of the state having jurisdiction. Powers and limitations are frequently difficult to define, and an attempted grant of power sometimes hopelessly inadequate. It is then that the trustee turns or should turn to the court of equity.

In the light of the several possibilities relating to the

scope of the trustee's power concerning investments, it is quite pertinent to examine the subject from the point of view of the trustee. Should the trustee seek to have the instrument drawn in such a way that he will be limited either to expressly designated securities or to the legals permitted under the state laws, or should he suggest that the trustee be given full power and absolute discretion over trust investments? The prevailing practice of discussing the form of the deed or will with the prospective trustee before consulting the attorney makes the answer to this question of considerable importance.

If we are to consider only the position of the trustee and the ease or difficulty of his task in administering the trust, we might seek to have the investment powers limited and well-defined, preferably by the designation of certain types of securities in which the trustee must invest. If, however, we are to consider, as we ought, the life tenant and remainderman and administer the trust advantageously for them, it would be my thought to advocate that the trustee use his influence to have absolute power and discretion in the matter of investments given to him in the instrument creating the trust.

Some Qualifications

I MUST, however, at once limit this general statement by a qualification. In many instances property is placed in trust which, because of peculiar circumstances surrounding it, should be administered by the trustees under limited powers. Some of these powers should be insisted upon by the trustee both for his own protection and for the advantageous administration of the trust. I might mention in this connection a large minority or controlling interest in a business or a large holding of real estate where there is no well-defined market value. Here a power of sale only with the approval of those interested in the trust, life tenants or remainderman is desirable. There are many instances when stock of a business is placed in trust where there is someone connected with the business or possibly a member of the testator's family who has a peculiar knowledge of that business. In such circumstances it would be desirable for the trustee to insist that his power of sale be only with the approval of such a party. If the trustee has a general power of sale in such cases and cannot obtain the approval of those interested in the trust, he should act only with the approval of a court.

A Trustee's Primary Duty

WITH these qualifications, I feel very strongly that the successful administration of a trust demands that the trustee be given wide discretion in the matter of sale and investment. Rapidly changing conditions in

our economic life seem to me to necessitate an elasticity in the administration of a trust that can only be brought about by cloaking the trustee with full powers. In advocating that the trustees be given these powers, I think that we should stress the thought that as trustee our primary duty is to conserve principal and to seek to obtain only such income as is compatible with the preservation of principal.

I realize that in advocating this I am making our path a difficult one. We shall be told that it is a trustee's duty not only to conserve but to obtain a reasonable appreciation of principal. Having full powers of investment, we shall be urged by ultimate beneficiaries to stress appreciation. We shall be urged by life tenants to obtain a higher income than is compatible with our duty to preserve the principal. We shall be pressed to consider the changing purchasing power of the dollar and to invest our trust funds to keep pace with this changing value. We shall be asked to buy common stocks. Some of us are buying stocks for our trust funds now. Others of us possibly would like to do so and obtain that appreciation of principal that we are told will, over a period of years, result from the purchase of common stocks. Having full powers of investment, we shall be asked what our attitude is toward the stocks of the so-called investment trusts. These and many other questions must necessarily be answered if we act under an instrument giving us full powers of investment limited only to the rule of the reasonably prudent man under similar circumstances.

Should we then seek to submit ourselves to vexatious problems by advocating to prospective creators of trust or prospective testators that we as trustees be given full powers of investment? I believe that we should. I feel that our duty toward our prospective trustors demands that we urge them to give us a wide latitude over investments and the opportunity of meeting changing investment conditions. I would, however, again point out with added emphasis that our first duty is not to secure appreciation in but to conserve the value of the trusts in our care.

CHAIRMAN MECHEM: It is unnecessary for me to emphasize the importance of this question of investment. It is sufficient to say that the original investment of trust funds and the subsequent care of those investments constitute the very guts of our business. It follows, therefore, that the work of the Trust Investment Committee, no matter how that Committee be formulated, is the most important function that is carried on in the trust department of any bank or trust company.

We are going to have the workings of such a committee explained to us this afternoon in the very interesting form of a demonstration. I take pleasure in introducing our Trust Investment Committee.

The Trust Investment Committee

(A Demonstration)

CARL W. FENNINGER, *Vice-President, Provident Trust Company, Philadelphia, Pa. (Chairman).*

HAROLD D. BENTLEY, *Vice-President, Guaranty Trust Company, New York, N. Y. (Businessman).*

J. CUNLIFFE BULLOCK, *Vice-President, Industrial Trust Company, Providence, R. I. (Banker).*

ROBERTSON GRISWOLD, *Vice-President, Maryland Trust Company, Baltimore, Md. (Investment Dealer).*

WM. RHODES HERVEY, *Vice-President, Los Angeles-First National Trust and Savings Bank, Los Angeles, Calif. (Lawyer).*

A. F. YOUNG, *Vice-President, Guardian Trust Company, Cleveland, Ohio (Secretary).*

MR. FENNINGER: The Committee on Review and Survey of Trust Securities has been asked to give a demonstration of the work of a Trust Investment Committee. The remarkable growth in personal trusts in our companies has laid upon us great investment responsibilities, and they are constantly increasing in size and complexity.

With this growth has come also the development of systemic methods of recording, studying and dealing with investments. In the larger institutions, Investment Departments are essential. In some cases they serve all departments of the institution and in others they are within the Trust Department only. These departments, usually in charge of a vice-president, are equipped with such statisticians, stenographers, and file clerks as the volume of business may require, and acts as the "fact finding body" for the investment department. Naturally, however, the final responsibility is borne by the company itself, represented by the Board of Directors, and it is therefore, essential that direct contact exist between the Investment Department and the Board of Directors. This is usually accomplished in one of two ways:

First, by reporting direct to the Board the investment transactions of the department in some detail, including the securities received for accounts, those purchased, and those sold. Where this is done, the manager of the department sits with the Board.

The second method is to have an Investment Committee of the Board, which committee cooperates with the Investment Department by holding regular or special sessions for the consideration of problems, and the Board finally passes on the investment work in the form of confirmation of the Committee's actions.

The advantages of this second method are apparent. In the first place, it is, of course, much easier for a committee of three to consider in detail the investment work, than it is for a Board of fifteen or more. In the second place, it makes it possible to concentrate in this committee the members of the Board best fitted to manage matters of this kind. Third, it makes it easy for the investment officer to get assistance when needed. Many times the members of the committee can be consulted by telephone.

It is our thought to go through the routine of a committee meeting before which will come for consideration three cases. These, while bearing fictitious names for our purposes, are based on actual cases and only such

changes in names of persons and securities have been made as will eliminate any betrayal of confidence.

Before starting the session, it may be well to suggest that a committee should consist of at least three Board members. Perhaps an ideal committee would be made up of a lawyer, a business man and an investment dealer. These men should meet with the investment officer and there should be available a secretary to record the work of the committee and the decisions reached. The committee should be entirely free to call on members of the administrative departments having various accounts in charge, for information relative to the management of the accounts. Indeed, it is important they should do this, to be sure that all factors in the estate are considered.

We think it very desirable that the administration men in the company be kept in close touch with the men of the Investment Committee, and should perhaps be present when the administration work is influenced by discussions and decisions in investment matters.

The committee at its meetings considers, generally speaking, two things. First, the new cases received, taking cognizance of the major administrative factors involved. Second, the review of accounts periodically brought before it by the investment department.

Of course, the rules governing trust investment matters vary in the different states and the demonstration must therefore be regarded as very general and the methods followed applicable to different cases in the light of legal requirements.

The cases for study today are:

1. A case of rather large size involving a number of different problems including the operation of an unfunded insurance trust. In this case the company acts both as executor and trustee under the will and as trustee under the insurance trust.

2. A case where the company acts both as executor and as trustee, involving the operation of a business.

3. A case in which the company did not act as executor but does act as trustee, and received investments from the executors in a foreign jurisdiction, which require readjustment.

Please understand that the purpose of this demonstration is to bring out important points and methods, and that the expressions of those taking part are not necessarily those which might be used if the case actually came before them in their own institutions.

We have made up for the purpose of this demonstra-

tion that we would consider a typical committee. For example, Mr. Bullock is acting as banker; Mr. Bentley, as businessman; Judge Hervey, as lawyer; Mr. Griswold, as investment dealer; Mr. Young, as secretary. The chairman in this case is supposed to be the vice-president of the company, in charge of the trust investment work. There was some little discussion in the committee as to which was a better method—to have a member of the Board as chairman of the committee, or to have the man in charge of the investments as the chairman of the committee. I think it should be the man in charge of the investment work. He is the one who has to see that the routine work is carried through.

With those preliminary statements, we will start the discussion. Mr. Secretary, will you read the minutes of the last meeting of the committee?

SECRETARY YOUNG:

Minutes of Previous Meeting

Thursday, February 2, 1928.

The Trust Investment Committee met Thursday, February 2, 1928, at 3:45 o'clock.

Present: Messrs. Bentley, Bullock, Griswold, Hervey, Chairman Fenninger and Secretary Young.

The minutes of the last meeting were read and approved.

New trusts were reported and their acceptance approved, as follows:

Living trusts 2028 to 2047, valued at \$797,294.00.
Court trusts 739 to 744, valued at \$195,000.00.
Sundry trusts 1278 to 1384, valued at \$842,000.00.
Bond trusts 685 and 686, valued at \$500,000.00.
Stock trusts 379 to 384, valued at \$1,915,000.00.
Real estate trusts 891 to 898, annual income—\$150,300.00.

The committee then directed investments totaling \$580,525, covering 45 various trusts. These investments were classified as follows:

\$80,000 in first mortgages
150,000 in land trust certificates
100,000 in industrial bonds
100,000 in rail bonds
100,000 in Government and municipal securities
50,000 in public utility bonds

The Committee approved the sales, totaling \$125,000, made in conformity to the previous action of the Trust Investment Committee.

Securities Approved for Trust Investment—San Francisco Crude Oil Purchasing Company 10 year Secured "A" $5\frac{1}{2}\%$ bonds. Great Lakes Furnace Company First Mortgage Sinking Fund "A" $5\frac{1}{2}\%$ bonds.

First National Bank of Flatbush—Stockholders of this bank have been given the right to subscribe to additional stock at \$300 per share on the basis of one new share for each four shares held. It was recommended that the rights to subscribe to stock of this strong New England Bank be exercised.

The J. W. Smith Rubber Company—Stockholders of this company have been given the right to subscribe to

additional common stock at \$75 per share on the basis of one new share for each six shares held. It was recommended that the rights be exercised in the discretion of the trust officers.

Kansas City Joint Stock Land Bank Bonds—Recommended that our bonds be deposited with the Protective Committee.

Southern Pipe Line Company—A minority group of stockholders have asked for proxies for the annual stockholders meeting as they are not satisfied with the dividend policy of the company, which in their opinion has been too conservative. The complaint does not seem justified, and it, therefore, was recommended that the proxies supporting the management be filed.

National Iron and Steel Company—Stockholders of this company have been asked to approve an increase in the authorized and issued common stock from 500,000 shares of \$100 par stock to 1,000,000 shares of no par common stock, in order that the no par common stock may be issued to common and preferred stockholders of the Jordan Steel Company. Stockholders have been asked also to approve and authorize the purchase of two-thirds or more of each class of stock of the Jordan Steel Company, or all the property and assets of the Jordan Company. It was recommended that approval be given to these changes.

U. S. of America Third Liberty Loan $4\frac{1}{4}\%$ s—The Treasury Department has announced that on January 16th it will issue new $3\frac{1}{2}\%$ Treasury Notes Series "C" due December 15, 1932, with a special call date in 1930, in exchange for the Third Liberty Loan $4\frac{1}{4}\%$ Bonds due September 15, 1928. The new notes will bear interest from January 16th and may be exchanged par for par on that date or thereafter, the interest being paid on the Third Liberty Loan Bonds without deductions until March 15, 1928. This additional interest is to compensate holders of the bonds for the premium at which the bonds are now selling of around 20/32nds. It was recommended that no exchange be made as it does not appear attractive.

Van Heusen Electric Tool Company—The holders of common stock of this company have been asked to give an option on their stock at \$25 per share. This price is considerably more than the stock has been selling for for some time, and, therefore, it was recommended that the option be given.

The Committee then reviewed some thirty trusts and took the action required, which is recorded in detail but which I will not read unless the Committee so requests.

There being no further business, the meeting adjourned.

A. F. YOUNG,
Secretary.

The above action was approved by the Executive Committee at its meeting held on the 5th of February, 1928.

H. L. JONES,
Vice-President.

CHAIRMAN FENNINGER: Are there any questions about the minutes? If not, they will stand approved as read.

Estate of John Smith

THE first case we have for consideration today is that of John Smith, who has just recently died, and who has named the company as executor and trustee in his will. He created sometime prior to his death an unfunded life insurance trust with \$200,000 of life insurance. We now have to consider not only the executorship under the will, but also the question of the proper management of the insurance trust and the use of the funds which we will receive when the policies are collected. Each of the members has a copy of the will and the deed of trust, and a copy of the list of investments, giving the basic information. The list of investments has as a supplement a summary showing the division of the bonds into railroad, public utility, industrial and government, the stocks into various classes, the amount of real estate, miscellaneous notes and other assets.

MR. BENTLEY: What is the family situation?

CHAIRMAN FENNINGER: This man, some years ago, was considered to be very wealthy and he thought his estate would probably amount to some \$5,000,000. However, a change in one of the major industries of the country, in which he was engaged, has altered the whole situation. For the last two or three years he had been living beyond his income, and our investigations show that the family has probably spent from \$125,000 to \$150,000 a year, when the actual income of the estate was a third or a fourth of that amount.

One of the most difficult problems we have is to adjust the family expenditures and get them down to some reasonable basis which the estate can sustain. There is a widow and five children, only one of whom is of age. The others are quite young. Does that give you all the information on that point?

MR. BENTLEY: Yes.

JUDGE HERVEY: What are the investment powers under the will?

CHAIRMAN FENNINGER: This will was drawn very carefully and with a pretty complete knowledge of the business situation in which the man was placed, and as a result the executors and trustees are given very broad investment powers. Just briefly, we can put them this way: First, that under the will they are given the power to sell real estate at either public or private sale; they are given the right to retain the decedent's investments, join in leases, mortgages, consolidations, foreclosures, or reorganizations. They are given the power to buy investments, legal or otherwise, at premiums. If they desire to buy those investments at a premium they have the right to charge the premium to either income or principal.

In regard to partnerships, they are given the power to join with surviving partners in the continuance of any business in which he may have been at the time of his death, for a period not longer than ten years. They are also given the power to make new loans for the estate, or to continue or renew old loans which he may have had at the time of his death.

JUDGE HERVEY: That is an unusually wide grant of power, is it not?

CHAIRMAN FENNINGER: It is, and I should say it is rather unusual. For that reason, we have gone over

the question very carefully with counsel and expect to confer with him if any unusual situation comes up; because even though these powers are very broad, it will undoubtedly be difficult to work out some of the business problems involved.

JUDGE HERVEY: Are we advised by counsel that those powers are valid?

CHAIRMAN FENNINGER: They believe they are valid and that we may act under them with broad discretion. Nevertheless, we feel the responsibility very keenly.

JUDGE HERVEY: Then we can handle these matters as though they were our own?

CHAIRMAN FENNINGER: As a business proposition—more or less unhampered.

JUDGE HERVEY: That is very fortunate in this particular case.

MR. GRISWOLD: Do the investment powers specifically refer to investments in common stock?

CHAIRMAN FENNINGER: They do, Mr. Griswold. We have the right to retain and continue all or any of the investments and securities, without incurring on our part any liability for so doing. Then there is a further power which gives us the right to do anything necessary in the handling of stock assets which he might have at the time of his death. There is no specific power to invest in stocks except the general one.

JUDGE HERVEY: That is broad enough to cover stocks, if he opens the door outside of legals, is it not?

CHAIRMAN FENNINGER: I think it is. It is a question of policy as to whether we want to purchase stocks for a trust account or whether we do not.

JUDGE HERVEY: What powers have we under the deed of trust?

CHAIRMAN FENNINGER: We have practically the same powers. We have one or two additional powers which are of importance. For example, under the deed, we have a right—(in this case it was an unfunded deed of trust and we have no investments to start with)—to buy investments, legal or otherwise, and charge premiums to income or principal, at our discretion.

There is an additional power which is somewhat unusual. We are given the power to buy from the executor any investments he may have in his estate at the time of death. It gives us the authority to buy any of the investments he may leave, whether they may be looked upon strictly as trust investments or not. He realized that he might die with heavy obligations in his estate and no market for some of the securities and that we would have to take those securities in the deed of trust.

We are also given the right to lend to the executor on collateral supplied by the estate. We are also given the right to sell investments, including the real estate, at public or private sale.

MR. BENTLEY: I presume you have the opinion of counsel with respect to these powers in this trust also?

CHAIRMAN FENNINGER: We have, Mr. Bentley.

MR. GRISWOLD: How specific in the deed of trust is the power to lend?

CHAIRMAN FENNINGER: I will read you that portion of the deed: "With full power and authority to purchase from the executor of my will or the administrator of my estate, any of the securities or property which may constitute my estate, at such price or prices as the trus-

tees under this deed may deem best, and with full power and authority to loan to the executor of my will, or the administrator of my estate such sums of money as said trustee may think best, taking as collateral securities therefor any investments, or securities which may constitute part of my estate."

JUDGE HERVEY: That is sufficiently broad.

Cash Requirements

CHAIRMAN FENNINGER: The first question we have to consider is the question of the cash requirements of the estate, which in this case are rather difficult to meet. The Administration Department has made up a statement of the liabilities of the estate and of the cash requirements in order to effect the settlement of the estate. It is found that there are unsecured notes outstanding for which the decedent is directly liable, of \$65,000. The collateral notes held by banks on which he is directly liable amount to \$210,000. There are unsecured notes held by banks on which he is contingently liable to the extent of \$50,000. He owed to the companies in which he was interested as a stockholder, and in most cases as a majority stockholder, \$147,000. He had pledged himself to certain stock subscriptions to the extent of \$18,000, and he had a broker's account in which there was a debit balance of \$1,087,000, with marketable securities to a certain extent as collateral and unmarketable securities to a larger extent. The deficit in that account is about \$150,000. He had certain debts and expenses of \$27,000; an income tax liability of \$10,000; total, \$677,000, which we must meet in the administration of the estate if we include the contingent liabilities.

In addition to that, we have to consider that the legacies, taxes, counsel fees, and executor's commissions will probably amount to \$115,000 or maybe \$120,000. Altogether, we find the expenses and liabilities will be about \$790,000.

MR. BULLOCK: How do you plan to take care of these cash requirements, particularly the broker's loan?

CHAIRMAN FENNINGER: We have been puzzling about that. The position of broker's accounts with a \$150,000 debit balance has changed somewhat since Mr. Smith's death for the reason that one of the stocks, of which there was a large holding of 4000 shares, has materially increased in value. As a result of the partial liquidation of that stock already made the account is now in much better shape. The question involved has been whether in liquidating the account any of the cash in the insurance trust should be used. I should like the committee to think that over and make a definite recommendation before we leave this estate. Probably the most immediate problem we have to meet is this broker's account which is running at a substantial rate of interest, and which, of course, is a constant menace because of fluctuation in market values.

MR. BULLOCK: When do the notes fall due, and are they collateral notes?

CHAIRMAN FENNINGER: The notes due the estate are collectible. Some of them are made by very substantial people and some of them have collateral. The thing that bothers us mostly, however, is that we see no

possibility at the moment of liquidating all of the obligations which Mr. Smith had outstanding in the shape of notes. Fortunately none of them is immediately due and the committee will have to consider that at a later meeting.

Now the direct obligation notes are all held by banks who are more or less friendly. Several of them are held by banks in which the decedent had a stock interest. We ought not to be embarrassed on those, and since we have power to renew notes, we can probably continue them for the present. It is very fortunate indeed that we have that power to renew notes.

JUDGE HERVEY: How much do we owe corporations, and what is the total amount the estate is indebted to them?

CHAIRMAN FENNINGER: I would like to explain that a little bit, Judge Hervey. It seems this man carried one account in which he withdrew from these various corporations in which he was a very large stockholder, sums of money for purposes of investment, and he carried them in a special account as a personal liability of his own. That amounts at the present time to \$147,000. Some of that will have to be met fairly soon, because in one case there is a substantial amount of bond interest falling due and we will have to be prepared to return part of it to the company in order to meet that interest, which amounts to some \$15,000. That account is one that will have to be liquidated as fast as these corporations require the money.

MR. BENTLEY: Is there any income tax liability?

CHAIRMAN FENNINGER: We are not certain about that because we haven't been able to investigate all of the income tax returns made for the past few years. We know that he employed a firm of attorneys to take care of his income tax work, and we know he had for a number of years a case pending in Washington, which involves a rather large amount of money; we believe something over \$300,000. If those cases go against us, of course, we will have further liabilities which will give us difficulties, but we are leaving those things in the hands of counsel who were employed by him, since they are reputable people, to try and take care of them.

In connection with raising cash, perhaps the best plan now would be to ask the Secretary to read the report of the Analysis Department, which has been made on some of these investments. We have picked out some to be considered rather than all of them at this meeting, because some we have not been able to fully investigate.

Analysis of Securities

SECRETARY YOUNG: Our securities and analysis division, without any reference to the particular facts in this case, or surrounding circumstances, from an impartial viewpoint, reports as follows:

"The principal amount of this trust totals \$2,265,000, giving a total income of \$91,000 and a yield on present market price of 4.007 per cent. Investments are classified 69.7 per cent in stocks; 10.4 per cent in bonds, and 19.9 per cent in a royalty contract with the Standard Oil Company.

"The trust has a large number of holdings of widely different character; although the list contains a number

of very excellent holdings, the lack of a definite plan in the selection and supervision of securities is clearly evident. However, the situation is not as bad as it would appear, as the larger items, except for some of the coal securities, are generally of an investment character, and depreciations are mostly confined to smaller holdings.

"The principal object is to safeguard the principal, providing the maximum income consistent with the safety of the principal. Everything else is secondary to the safety of the principal amount of this fund. We recommend the clean-out of all the weak holdings large and small, and have those of large amount reduced so that no more than around 5 per cent of the total principal amount, will be invested in any one item. This may involve a loss and further depreciation in principal, but we believe this would be more than offset by the increased security obtained through the diversification.

"There may be some questions as to the advisability of retaining any common stock. However, without going into any great detail we can state we believe the policy of retaining a portion of common, providing the holdings are properly diversified and only the stocks of the strongest companies are held, is a good one."

Our specific recommendations are tabulated below. I understand, Mr. Chairman, that you wish to personally discuss some of these in detail.

I will read the conclusions of the division:

"For the reinvestment of funds obtained, we recommend a balance divided between high-grade rail and public utility bonds, a very few selected real estate mortgages, held to around 5 per cent of the total."

CHAIRMAN FENNINGER: I suggest that the Secretary do not go into detail with all of the securities, because only three or four are of pressing importance. The others can wait until next week.

Management of a Coal Company

THE first of these is the Mitchell Renfield Coal Company. This is a soft-coal property and of course the situation of the soft coal industry at the present time is extremely difficult. I can see no chance of selling either the stock or the property of this company at the present time, and we are therefore faced with the question of managing, rather than selling.

MR. BULLOCK: Why is this stock not marketable?

CHAIRMAN FENNINGER: For two reasons: In the first place the company is not particularly well known. All of the stock with the exception of a comparatively few shares is held by this estate. The company has not been making any money; in fact, I think we will find it has lost a large amount of money this year, and there is no opportunity for selling soft coal stock at this time. No one seems interested in it.

MR. GRISWOLD: Have you formulated any plan in your mind as to what best to do with that stock?

CHAIRMAN FENNINGER: There is nothing to do except to hold it.

SECRETARY YOUNG: What is the present management?

CHAIRMAN FENNINGER: Mr. Smith practically managed the company himself. He was the financial man-

ger and more or less of the overseer. He had a fair organization at the mines, but he had no real man who knew the whole story or who was well trained in the management of the property. That is one of the problems we have got to meet.

MR. BENTLEY: Whom do you propose to employ to manage the property now?

CHAIRMAN FENNINGER: We have been looking into that question. There is one man who has been associated in another mine in which this estate is interested. He has had a rather long experience and is favorably known. We have checked him up in the banks in the section where he lives. He is a college graduate. He has had an engineering course and has had the practical experience of running a company, in addition to taking care of the engineering work, and we have rather thought we might make an arrangement under which he could be brought up for say, three or four days a week, from one place to the other. They are within sixty miles of each other, and he could devote a portion of his time to the management of this property. We could back him up with the necessary help. We probably would have to employ a new foreman so as to give him more freedom. As far as we can tell, he is a responsible and able fellow. My thought would be to take him over without making any promise as to what we are going to do in the future, keeping him in the old place, but giving him this additional burden.

JUDGE HERVEY: Are we personally acquainted with any of the personnel at the mine?

CHAIRMAN FENNINGER: We have had our administration man go up. I have been there myself. We have gone over the situation as best we could in the rather short time available. We have had no opportunity yet to have a thorough examination made.

JUDGE HERVEY: Do you have confidence in the men Mr. Smith employed out there?

CHAIRMAN FENNINGER: We believe the man who is the officer manager is very competent. He bears an excellent reputation. We see no reason why he shouldn't continue and why he shouldn't be perfectly competent to represent us up there.

JUDGE HERVEY: Have we taken the usual precautions for the protection of our property?

CHAIRMAN FENNINGER: I think we have. We haven't had a chance to make a thorough engineering examination. We have had a man go over the properties and he sees nothing serious at the present time. We are trying to make arrangements to have a definite examination made.

JUDGE HERVEY: So far as you know, there is no liability that will fall on us that will not properly fall on the estate? We have compensation insurance, I presume.

CHAIRMAN FENNINGER: Yes. We also have the proper fire insurance. We have tried to prevent any question being raised about being slow in acting up there, by putting an accountant on the books right away. It is going to be essential to revise the accounting system because they do not have one that will give us periodical statements in the proper shape.

MR. GRISWOLD: Have you a copy of the last financial statement?

CHAIRMAN FENNINGER: We have a copy of the statement here which gives the situation in detail.

SECRETARY YOUNG: Did I understand you to say we are represented on the Board?

CHAIRMAN FENNINGER: We have had a meeting of the Board of Directors of the company and of the stockholders, and we have made certain members of our force directors of the company and have also elected the son of Mr. Smith as one of the officers of the company, so as to establish the family connection there, and this young fellow expects to go up to the office of the company and work right at the mines.

JUDGE HERVEY: How old is he?

CHAIRMAN FENNINGER: He is twenty-two and is just recently out of college. He has no experience whatever.

JUDGE HERVEY: Has he been employed at the mines at all?

CHAIRMAN FENNINGER: No, he has never been there.

JUDGE HERVEY: Is he a good moral risk without experience?

CHAIRMAN FENNINGER: He may be a liability to us for a while.

Bank Holdings

CHAIRMAN FENNINGER: Now the second thing we have here is a rather unusual situation in that the decedent had certain substantial interests in national banks; in one case, a large holding. I would like to ask the Secretary if he would read the memorandum he has about the Windsor Bank.

SECRETARY YOUNG:

Windsor Bank Analysis. Capital stock authorized and outstanding, \$4,000,000. This institution, well established in a growing city of around 500,000, has increased deposits, resources and earnings steadily, earning in 1927 around \$30. per share. Deposits have more than doubled in the past ten years, and are now around \$100,000,000. Book value of the stock is \$250. Regular rate is 12%, with 2% extra in 1926 and 1927. The management is aggressive and yet conservative. All indications point to continued steady growth. We believe the stock suitable for investment holding.

MR. GRISWOLD: In view of the report of the analysis department, I would suggest that the stock be retained.

CHAIRMAN FENNINGER: Has anyone any reasons for feeling otherwise?

MR. Secretary, would you mind reading the memorandum about the Agricultural Commercial Bank, which seems to be a somewhat different story?

SECRETARY YOUNG:

Agricultural & Commercial Bank Analysis. Capital stock authorized and outstanding, \$200,000. This institution, located in a rapidly growing community, has shown a steady increase in deposits, averaging around 10% per annum. Nevertheless, undivided profits account has actually decreased in each of the past two years, and in 1927 the dividend of 8% was barely earned. The substantial size of the investment account, together with the decline in earnings, indicates the possibility of further write-offs in this item. Management does not compare favorably with that of other institutions in the same locality. We suggest an immediate sale.

MR. BENTLEY: I recommend the sale of this stock at the best price possible.

CHAIRMAN FENNINGER: We have one other bank holding—The Oporto Bank. We have made a personal examination of this bank. The interest in this amounts almost to a controlling interest. We have made a careful study of the company's investments and the earning statements for the last few years. We have also gone over the report of the last banking department examination, and we believe that this stock is worth about \$400 a share, but it involves us in a responsibility which is a very substantial one. We have no method of qualifying on the Board of Directors, and we ought to sell in my judgment. We do not see at the moment how it is going to be done. There is no one in the community who would be sufficiently interested to take over a large block or even a portion of this stock. So I think we will just have to study that situation and perhaps find some method of disposing of it perhaps to another banking institution in that section.

MR. BULLOCK: I suggest that we endeavor to sell this stock if the committee has no objection as opportunity offers, and I would suggest an effort to find a market for this stock in some other banking institution.

CHAIRMAN FENNINGER: Does anyone see any objection to that? I would like in this case to have the members of the committee keep that bank in mind and make any suggestions as to another banking institution that would be willing to buy this stock. I really believe that is perhaps our only method of getting out of that large investment.

Liquidating Broker's Account

I SHOULD like to come back to the question of the broker's loan. Does the committee feel that that loan should be closed out immediately, irrespective of conditions at the moment as far as the market is concerned?

JUDGE HERVEY: What securities have we?

CHAIRMAN FENNINGER: We have largely unmarketable securities. There is, however, a large block of 4000 shares of Newcastle Transportation Company. This is highly marketable. It has risen in price 12 or 13 points in the last few weeks, since this man's death.

JUDGE HERVEY: Has an analysis been made of the sluggish securities to ascertain their real worth?

CHAIRMAN FENNINGER: There has been on a part of them. Unfortunately, some of them are organizations in the southern part of the country where it is difficult to get information, and possibly a personal investigation will have to be made. They are marketable, but only to people interested in that locality.

JUDGE HERVEY: Do you think our insurance money is a proper market for some of those securities?

CHAIRMAN FENNINGER: Yes, for this reason: I do not see where we are going to raise the cash to meet the liabilities that are pressing for payment, unless we take over some of these investments in the insurance trust, and instead of converting some of the undesirable things in the estate, convert them in the insurance trust. I think we are relieved from liability for loss directly by the insurance trust in doing that.

JUDGE HERVEY: I am not satisfied to carry those in-

vestments permanently with this insurance money. It is all right to use it as a cushion because of the immediate pressure, but I think those unsound or unmarketable securities ought to be gotten out of this bank.

CHAIRMAN FENNINGER: I think you are entirely right, particularly in view of the fact that some of them may not produce any income for some years, and the family is badly in need of income. So it is possible that a reduction in the principal of the estate by reason of sacrificing to a certain extent in some of these securities may be desirable.

SECRETARY YOUNG: How much of this stock would it be necessary to buy?

CHAIRMAN FENNINGER: I believe at the moment we could liquidate the broker's account by the sale of all but 500 shares of this Newcastle Transportation stock, and we could very properly take that balance over into the insurance trust. The family is very anxious that some of that stock should be held. I believe it is a satisfactory investment, at least for a temporary period, and I would see no objection to taking over 500 shares in the insurance trust. That would still leave us enough cash to pay off some of the other requirements in the estate. We would have to sacrifice the only liquid securities we have in the broker's account of course, but in doing so we should show a substantial gain over what the stock cost.

JUDGE HERVEY: And a substantial loss in the other stocks.

CHAIRMAN FENNINGER: Yes.

SECRETARY YOUNG: Then do I understand that our records are to show that you desire these broker's loans closed by selling all but 500 shares of the Newcastle Transportation Company, and the sale of that amount of stock to the insurance trust?

CHAIRMAN FENNINGER: Yes.

JUDGE HERVEY: What is the value of that transportation stock?

CHAIRMAN FENNINGER: It is worth about \$121.

JUDGE HERVEY: That makes about \$60,000. It seems to me that is a wise thing to do.

SECRETARY YOUNG: Do I understand that the Windsor stock is to be retained and the Oporto bank stock is to be sold, but not pressed on the market; that the Agricultural Commercial Bank is to be sold at once; that in the case of the Mitchell Renfield Coal Company we approve going ahead with the management for the present, but the situation to be reviewed again in two weeks?

CHAIRMAN FENNINGER: Yes. That is about as far as we can go with this particular case.

Estate of George Gross

THE next case is the case of George Gross. This is a case of a trusteeship following the company's own executorship.

JUDGE HERVEY: What are the powers under this will as to investments?

CHAIRMAN FENNINGER: In this case we are restricted as far as reinvestment is concerned to legal investments. We are, however, given the power to hold as investments of the estate any stocks, bonds, or other obligations held at the time of the death of the decedent.

So that while we have certain non-legal investments which we are authorized to hold, we cannot make other purchases of non-legals, and that has been confirmed by counsel. We might have a report of the analysis department on that, Mr. Secretary.

SECRETARY YOUNG: This report shows that a substantial part of this estate of \$176,000 is invested in U. S. Government securities and municipal bonds. The amounts are U. S. Bonds \$66,000 and Municipals \$61,000 equal to 72.7% of the principal. Other than possible diversification of Municipals of which \$46,000 represent obligations of the City of Philadelphia and the reinvestment of a part of the Liberty Bonds in Pennsylvania high grade municipal bonds or mortgages, no action is necessary. 3rd 4¼'s might well be so reinvested.

Our problem therefore rests with the balance of the trust—about 28% of the estate. This balance is invested in ten items which we will cover.

1.—\$1,800 Par Philadelphia and Reading Coal and Iron Company Ref 5's are a satisfactory investment. Present conditions in the industry are unsatisfactory but these bonds are amply secured as to principal and income.

2.—\$1,300 par Reading Company General and Refunding "A" 4½'s are a prime railroad security.

3.—2,073 shares L. M. Dangerfield Mining Co. Capital—practically worthless but cannot be charged off. Charter not surrendered.

4, 5 and 6—3,000 Par Philadelphia and Garrettsford Street Rwy Co., 1st 5's 1955; 6000 Par Philadelphia and West Chester Traction Co., Stock trust cert. 5's 3,000 Par Schuylkill Valley Traction Co., 1st 5's 1945; these securities are unquestionably weak, but selling at prices where weakness of security should not be sufficient reason for immediate disposal. For the present no action should be taken until more accurate data from Philadelphia interests who are thoroughly acquainted with the situation is furnished.

7 and 8.—6 shares Birdsville Trust Co.; 30 shares McAllister National Bank. These are affiliated institutions, prosperous, located in a growing community. We have conferred with the officers who were kind enough to give us considerable detail concerning the assets of the institutions. We believe the assets are carried on a very conservative basis. The institutions are officered by men of excellent reputation.

Beneficiaries under this agreement are anxious to continue the investment for personal reasons. We see no urge to go contrary to their desires.

9.—40 shares Pennsylvania R. R. Capital stock. Although the investment in this item exceeds 14% of the entire principal we do not advise selling of even a part of the holding at the present time. We believe that under present money conditions, and with the earning capacity of the system, the stock is worth substantially more without assuming much risk. It is a security to be watched closely but consideration of sale be deferred until a price of 75 is available, the merits of the case at that time to determine action.

10.—15 shares West Jersey and Seashore R. R. Co. This is a small item which can well be sold. Control of road is lodged with Penn. R. R.

Stock of Mining Company

MR. GRISWOLD: What was the name of that mining company?

SECRETARY YOUNG: Dangerfield Mining Company—2,073 shares.

CHAIRMAN FENNINGER: During the lifetime of Mr.

Gross, that was a very profitable thing and he took out a great deal of money; in fact, almost his entire estate is made up of the results of the operation of that property, but it is now practically exhausted and we are just faced with the liquidation of what assets are left. We had to manage the company for some little time subsequent to Mr. Gross's death, and a short time thereafter we were appointed liquidating trustees. The company is winding up gradually and we have asked counsel to take whatever steps are necessary to finally liquidate the business.

I would like to ask, in view of the recommendations of the analysis department, whether we shall continue to hold these investments in view of the fact that we are restricted to legal investments. We could sell some of the stocks on the present market at a profit to the estate and eliminate a non-legal investment. Of course, we have a right to continue holding them under the will.

JUDGE HERVEY: Can we reinvest them to better advantage if we sell them?

CHAIRMAN FENNINGER: Only if we are able to find mortgages at 6 per cent, which is a difficult thing to do at this time.

JUDGE HERVEY: The yield from the non-legals is better than any legals we can put the money into except possibly mortgages.

CHAIRMAN FENNINGER: Yes, but we have also to consider certain taxes on mortgages which do not exist as far as these investments are concerned.

JUDGE HERVEY: I am inclined to think we had better hold those for the present.

CHAIRMAN FENNINGER: Will you note that then, Mr. Secretary. This estate will not need to come before the committee for another period of, say, six months, at which time we will consider that again.

Estate of Jane Jones

THE third case is the case of Jane Jones. This is a case where we have been named as trustees, succeeding a trustee who had administered the trust previously and who had a large number of non-legal investments.

MR. BULLOCK: What is the particular problem in this case?

CHAIRMAN FENNINGER: We are faced with the fact that we received from this previous trustee a good many years ago these non-legal investments. The market at the time of their receipt was considerably below the prices at which they have been taken into the account by the previous trustee. For some reason, as I suppose happened in lots of trust companies, they did not in those days pay as much attention as we are paying now to investments. As a result of this we still have in our hands some of these non-legals which we have to consider.

MR. BENTLEY: What are our powers here?

CHAIRMAN FENNINGER: We have no power to retain even what we have received from the previous trustee. The fact, however, is that we have already converted in this estate a very large amount of these non-legal investments—that is, within recent months—and have put them into mortgages. The family is again in this case very anxious that we should not sell these in-

vestments. They would like to keep in the estate a substantial amount of liquid things and are particularly interested in the investments we now have. In this case, fortunately, we can get the approval of not only all the life tenants, but the remaindermen as well. They will empower us to retain those investments if we are willing to do so. Perhaps it would be well for us to have Secretary Young give us a brief idea of what those investments are.

SECRETARY YOUNG: This estate, having a principal of \$235,000 yielding an income of \$9,929 at the rate of 4.65%, consists of \$137,000 of excellent railroad bonds, \$24,000 of municipal bonds, and \$73,000 in stock of the John Jones Manufacturing Co. This stock represents 58.6% of the capital stock of that company, and a very substantial part of the estate.

We suggest the exchange of \$25,000 Denver & Rio Grande R.R. Co. First Mortgage Consolidated 4's and \$20,000 Peoria & Eastern R.R. Co. First Consolidated 4's for some other form of investments, such as good public utility bonds.

Disposition of Controlling Interest

THE problem faced in this estate is the disposition of the stock representing the controlling interest in the John Jones Mfg. Co. Our investigation indicates that the prospects of this company are excellent, and that the Shergild Paint Co. is about to purchase control of the company. It was incorporated in Delaware in 1924, and manufactures a patented agitator for paint materials. Its product appears to meet with great satisfaction among the companies who use it. Its earnings have been spent in development work and its surplus invested in Liberty bonds. No dividends will be paid until the end of the first quarter of 1928. There is no general market for the stock, although under special arrangements, employees have been buying it at about \$125 per share. Under all the circumstances there seems to be no question but that the control should not be sold at this time.

First, because the present management is capable and should carry on in the future as well as they have done in the past;

Second, because demands for the product are increasing;

Third, control of the company is desired by the Shergild Paint Company, though no other offers have been made for it. Information on this point is confidential, and the Shergild Company is not informed of the fact that we know of their desire to purchase the controlling interest.

Fourth, even though no sale of the company should be made, the stock is worth the amount suggested above.

Fifth, having realized the earnings for 1928, which at this time look to be substantial, a more advantageous sale should be possible.

MR. GRISWOLD: Most of these investments are non-legal, are they not?

SECRETARY YOUNG: We have \$24,000 in municipal bonds.

CHAIRMAN FENNINGER: A large portion is non-legal.

JUDGE HERVEY: This stock is really the issue. It is

the only matter pertinent at this time. The life tenants and remainder men desire to hold the stock and are willing to give us written directions to that effect.

CHAIRMAN FENNINGER: And a release of any responsibility for holding it.

JUDGE HERVEY: This stock should not be sold as they are just ready to reap the profit of this investment.

CHAIRMAN FENNINGER: The Secretary of the committee has gone into the situation very carefully and I think he has had the opportunity of consulting with certain people well versed in that connection. It certainly looks as though we would be making a mistake if we did sell it at the present time in view of the circumstances and the release of the people interested. The committee is unanimous in feeling that we can follow that course. Will you make that note, Mr. Secretary?

Now, Gentlemen, that is all the questions we have for discussion today. Are there any other points that you want to bring up about any of these things that have occurred to you since we went over them?

SECRETARY YOUNG: Just before we adjourn, I would like to make an announcement which I think will be interesting to the committee—that the usual envelope will be forwarded by mail in the morning. (Applause.)

CHAIRMAN MECHEM: We should be very glad to have you ask any questions of the members of the committee. If not, I may say to this committee for all of us that we have enjoyed this very much and we are very appreciative of the time and effort which they have put into giving us this remarkably good demonstration of how a trust investment committee ought to operate.

Thank you very much.

Mr. Roseberry, the Chairman of our Research Committee, is not here, but he has asked Dr. Smith to give us a very brief résumé of the last questionnaire of that Committee. Dr. Smith.

Report for Committee on Research

DR. SMITH: The chairman of your Committee on Research, Mr. L. H. Roseberry, of the Security Trust and Savings Bank, Los Angeles, California, was unable to come to the Conference, and I have been asked on behalf of the Committee to say a word concerning the last questionnaire sent out by it.

On Tuesday, Mr. Sisson of the Guaranty Trust Company gave us a picture of the rapid expansion of personal trust services of corporate fiduciaries. On Wednesday morning, Mr. Sammis of the Farmers' Loan and Trust Company gave us a picture of what goes on behind the scenes, as it were, to make possible the proper handling of this great volume of personal trust and agency service.

It must be evident that the proper organization of administrative and accounting controls is at the very foundation of a successful handling of a rapidly ex-

panding trust business. The Committee feels that this important problem of working out an ideal method of administrative and accounting control is one of the most pressing of the issues facing the trust companies at this time. From remarks heard on the floor here at this Conference I believe you all agree with the Committee.

Need for a Model Plan

IN order to study this problem, the Committee sent out Questionnaire No. 9, which reads as follows:

1. What system, if any, has your company installed to audit or check the quality of services performed by your respective officers and employees charged with particular phases of settling estates or administering trusts?

2. If such system is installed, does it adequately cover the whole or only a part of all the services required in the administration of all kinds of trusts?

(a) In your opinion, and judging by your experience, is it wholly or partially successful?

(b) Please send copies of forms, cards or checks used, with full explanation of plan.

3. Express your opinion as to the need for a model plan which will assure, as near as may be, a perfect administrative service for all kinds of trusts.

(a) Can you outline or suggest the basis or the details of such a plan?

The tabulation of the results and their study is a very considerable task, and will be done in due time. It is to be hoped that from this study a standard set of forms and a standard method of administrative and accounting controls can be worked out for the personal trust department.

The returns—151 in all—are representative of both large and small trust companies, and they are representative geographically speaking for the entire United States.

The replies to Question 3 indicates an almost unanimous agreement that such a model plan for administrative and accounting control is most desirable and many long and very suggestive and helpful letters were received from trust officials in various parts of the country. In addition to the 151 replies to the questionnaire and the letters, there has been received also samples of forms now in use in various trust companies throughout the country. All of this will be of great assistance to the Committee in working out the plan contemplated and I wish to thank the trust officials of the various trust companies throughout the land who replied, on behalf of the Committee.

CHAIRMAN MECHEM: Has anybody any matter that they think proper to bring up at this meeting at this time? If not, gentlemen, that closes our program and we will declare the Ninth Mid-Winter Conference adjourned.

(Adjournment Sine Die)

Should a Wife Talk With Her Husband About Making His Will?*

By H. L. STANDEVEN

Vice-President, Exchange Trust Company, Tulsa, Oklahoma

THE subject of will-making has challenged the attention of mankind for centuries. Evidence has been discovered of wills having been written 2600 years B.C. and undoubtedly in some form or other men have directed the disposition of their property after their deaths many centuries prior to this time. It has been aptly said that "there is nothing new under the sun," only details change. Therefore, the present idea of transmitting property after one's death by will is the result of necessity and convenience based upon centuries of experience. Until comparatively recent times, the rights of women in property, both real and personal, have not been recognized nor respected, and it is only in recent years that women have come into their own in the acquisition and distribution of separate estates. Until the last few years men very seldom consulted their wives regarding the distribution of their property by a last will and testament. Many of you have often seen a picture of a family gathered after the passing of the head of the house when the solicitor or barrister called at the home to open and read the will to the anxiously waiting widow and children. Often the terms of this will, clothed in so much secrecy, were not only a disappointment to the survivors but in many cases unjust and unreasonable. In order to protect the rights of the widow there has been written into our laws of descent and distribution what is known as the "widow's right of dower," that is: a widow's right to one-third of her deceased husband's estate. In many states this right cannot be taken away from her or even waived by her before the death of her husband.

Advantages of a Frank Discussion

WHY should a woman hesitate to talk to her husband about the making of his will? Is this not one of the most important acts in a man's life, and do not the terms of the will affect more directly his widow and family than any other instrument a man executes during his lifetime? A full, free and frank discussion of the terms of a will by a husband and wife leads to a better family understanding and sets at rest any misgivings that a wife may have as to what her rights will be in the estate of her husband, should he predecease her.

In my experience as a trust officer, many a man has told me that he did not wish his wife to know the terms of his last will and testament; that if she knew what was in the will it might cause family trouble, and that his will was only to become known to his wife after his death. Would it not have been better for this man and his wife to have sat down and discussed frankly the

question of their property rights, and to have had a will prepared which both understood and which both had agreed upon? This would obviate any possibility of a contest after death and would undoubtedly relieve the husband and wife of much worry and mental distress if each understood the terms of the will.

I have also known some women to execute their wills without discussing the matter with their husbands and enjoining upon the trust officer absolute secrecy until after their deaths. Sometimes this results in great embarrassment to the executor named in the will. Sometimes it results in a contest and in all cases it is bound to create in the mind of the survivor the thought that the deceased member of the matrimonial partnership did not have sufficient confidence in the other to discuss during the lifetime of the deceased their mutual interest in property affairs.

I think it is a grave mistake for a man to make his will without informing his wife at least in a general way of the contents of the will, especially that part of the will in which she participates. I also think it a great mistake for a woman to hesitate to talk with her husband about making a will and to hesitate to discuss with him frankly the terms of the will relating to herself and the surviving members of the family.

If There Is No Will

EVERY woman should urge her husband to make a will. It is sometimes disastrous for a man to die without a will, for unless a man directs in his last will and testament to whom his money and property shall go the laws of the state in which he lives govern the distribution of his estate. For example: A man without children may have the idea that his wife will be his sole heir. In many states she would inherit only one-half of his estate if he died without a will. It is therefore important for a man without children to make a will if he wishes to leave his wife his entire estate. Another example: If a man should die leaving a wife and several minor children it might work a great hardship upon the widow as the greater portion of the estate would be tied up during the minority of the children under guardianship. In many cases the transfer of property is thus prevented during the minority of the children. Then again, it might be very desirable for a man to create a trust for the use and benefit of his surviving wife and children. The terms of this trust should be talked over and agreed upon in the family circle before the will is drawn so that there will be no disappointment or heartaches after the decease of the husband.

Too often a man "puts off" this business of making his

*Radio talk given during the Conference, over Station WMCA, New York City.

will until it is too late. In many cases this neglect is due to ignorance—ignorance of the advantage of having a will; ignorance of the tragic results which follow when no will is made, and ignorance of the simplicity with which a will is drawn. A man with foresight

will not neglect this duty, but will show his thoughtfulness for his family by providing for their future comfort and happiness; and a woman with foresight certainly will not only talk to her husband about making a will, but will strongly urge him to do it NOW!

Does the Law Interpret Woman's Wishes*

By HOMER GUCK

Vice-President, Union Trust Company, Detroit, Michigan

TOO many of us lack a sense of order about our financial affairs. We are inclined to let the puzzling problems of finance that should be settled day by day as they arise, pile up until that date that we speak of so often in the phrase "I'll take care of that tomorrow."

"Tomorrow" is not guaranteed to come. The only time that we are absolutely sure of is *today*. The things we did yesterday are done, to our joy or sorrow. The things we plan to do tomorrow may never be done, but the things we definitely list to do *today* are the most important and most far-reaching in their effect on our lives and peace of mind.

At the head of the list of things to do today should appear the following three words: "Make My Will." Unfortunately, will making has surrounded itself with an atmosphere of superstition and fear. Many people put off making a will because, subconsciously, they feel that it hastens their death. Others think, erroneously, that if they leave no will, they can avoid inheritance taxes. *This* idea is as false as the other is superstitious.

A Misplaced Faith

MANY a woman has unbounded faith that if she should pass away without having made a will, the person she most favors will receive her estate without question and without delay, immediately after her death. This faith is entirely misplaced. The decisions of the courts are based on the law of the land. If a woman fails to dispose of her real and personal property by will, the law steps in and bestows it upon her heirs in accordance with the statutes of descent and distribution. Under these statutes, the law attempts to secure equality. In its efforts to be just to the majority, it may fail completely to satisfy the wishes of the individual.

For instance, one woman may want her husband to inherit the summer home where they have spent so many happy days. Unless she reduces this desire to a legally executed last will and testament, her infant son will take title to it, and it will be conserved and safeguarded for

him through the long years of his minority. Even though great financial advantage might result from its sale, it cannot be sold without lengthy and costly court proceedings.

A spinster may wish to educate a favorite niece. Without a will to that effect, her estate would be divided between her parents who may have ample means of their own.

A wife who is childless may feel that all of her estate should go to her husband because they have worked and planned and saved together for it. Unless she has made this provision in her will, the law in some states provides that he will receive but one-half of it in fee, and the other hand will go to her parents.

Wills have been offered for probate which have been written on scraps of wrapping paper or on the starched hem of a nurse's uniform. There is one famous case of a sailor's will of three words only, scribbled on a scrap of paper. The three words were: "Everything to Maggie." Certain technicalities must be observed, both in the preparation and the execution of a will.

An attorney should be employed to draw a will. The layman should never attempt it. A large percentage of the wills that are successfully contested are so-called "home made" wills.

Two disinterested witnesses must sign the will. (In some states three.) This means that heirs must not sign the will as witnesses, for beneficiaries who act as witnesses lose the right to their bequests. It is preferable to have as witnesses people who are not relatives of the maker of the will. This is not obligatory, but is considered a better practice.

Choosing an Executor

NEXT to the privilege of disposing of one's possessions to the persons to whom we wish to bequeath them, the most important privilege that drawing a will gives us is that of choosing the corporation or the person to execute its provisions.

This executor should be financially responsible, impartial, capable, experienced and sure to survive the maker of the will. If the executor dies before the estate

*Radio talk given during the Conference, over Station WMCA, New York City.

is settled, troubles rise thick and fast, and the estate must go through the long delay of crowded court calendars before it can be settled.

If a trust company is made the executor of your will, this difficulty is absolutely eliminated. In addition, the trust company can offer sound, impartial advice to your heirs on the investment of the estate. This advice is particularly valuable where a woman is leaving her estate to young children. In this case, the woman can provide not only that the trust company shall act as executor of the provisions of her will, but if her husband dies or if she is already widowed, she may safely leave in the hands of the trust company the great responsibility of acting as guardian for her children until they are of age. The protective care of a trust company over the property of a minor does not stop with attention to financial detail. A warm, friendly personal attention is given to his educational and social life. Much time is devoted to personal advice and friendly association with the wards of the trust company.

The trust company brings to the execution of the terms of each will the benefit of long experience as executor. Where the individual who serves as executor under a will is likely to proceed in a bungling, slow and wasteful fashion because of his lack of experience, the trust company handles the administration of a will with the efficiency which results from its daily contact with this business.

Making a will is a serious matter. It should be given serious thought. No phase of our lives touches our near and dear ones more closely than the provision we make for them when we are taken away.

How a Trust Company Can Help

I WANT to make a suggestion. Go to the office of a well known trust company and make the acquaintance of one of its officers. The officer will be more than

glad to talk over with you any financial problems you may be facing now or that may arise soon. If you meet him *now* when your affairs are running smoothly, his counsel will be even *more* valuable when emergency arises.

The trust company offers help toward making life run smoothly. Through its property management service, the responsibilities connected with owning property, such as collecting rents, making needed repairs, hiring janitors, and so on, are shouldered by the trust company. Cashing the check that is sent you at regular intervals is your only responsibility.

If you plan to travel, this service is a great convenience. In addition, under a safe keeping agreement, the trust company will look after your securities, clipping coupons so that no interest is lost, watching for called bonds, and besides, safeguarding the bonds themselves behind great doors of steel. Your trust company sells travelers checks, those blue slips that eliminate the difficulty of carrying large amounts of ready cash when traveling.

Many other plans are definitely formulated by the trust company for you. Additional services will be tailor-made to suit your needs by the officer you consult. You will find him friendly, hospitable, and helpful.

At the head of the list of things to do today write and underline "See my lawyer about drawing my will." The resultant peace of mind will help to postpone the day when that will must be probated.

BANQUET

Thursday Evening, February 16, 1928

MR. WALTER S. McLUCAS, President, Trust Company Division, American Bankers Association, presiding as toastmaster.

The Advance of the Corporate Fiduciary

By **WALTER S. McLUCAS**

President, Trust Company Division, American Bankers Association, and Chairman of the Board, Commerce Trust Company, Kansas City, Missouri

IN the life of a nation—as in the career of an individual—early stages are mainly devoted to creating—to the acquiring of property and the building of an estate.

Not until the mature years is there much concern for conserving—to considering methods to see that the efforts of a lifetime shall not be wasted.

The United States, with a history of only a century and a half behind it, is regarded as a new country among the nations of the earth. We were not always wealthy and affluent; indeed it is only within the past decade that we found ourselves with enough capital to develop our own resources without calling for aid from overseas. Financially, America has come of age; and it is only natural that our people should give more and more consideration to some of the problems of maturity.

More than two hundred years ago, George Farquhar announced that "necessity is the mother of invention." Necessity is the mother of other things too. If the necessity for quicker communication gave birth to telephone and radio, if the necessities of war hastened travel by air, so also did necessity incubate modern methods of financing her physical offspring. And I believe that the recent history of trust companies shows that they have been necessity's foremost agents in that process of financing.

The American trust company is little beyond its hundredth anniversary. Yet its resources are twenty and one-half billions of dollars. That figure measures a six per cent increase in the last year and is twice the magnitude of the resources of ten years ago. Increase in the

number of trust companies in the past decade is almost nominal. The increase in resources is the result of enhanced public confidence in this latest of major financial developments—the trust company.

Some of our contemporaries might take issue with that statement on the ground that trust companies had been merely the beneficiaries of fortuitous circumstances, along with banks in general—that our growth was the inevitable outcome of unprecedented general prosperity. By examining the reports of the Comptroller of the Currency, we find the figures will not bear out that opinion.

In 1917, there were 7604 national banks in the United States with resources of sixteen billion dollars. In 1927, there were 7978 nationals with resources of twenty-five billions.

In 1917, 2009 trust companies had resources of nine billions. In 1927, 2684 trust companies had resources of twenty and one-half billions.

The ten year increase in national bank resources was 55 per cent. Of trust companies, 127 per cent, not wholly, however, from commercial banking expansion but in large part through their development of their own special field of fiduciary service.

Let me not appear to be indulging in odious comparisons. I mean only to establish my opinion that trust company patronage is a reflection of growing public confidence in our type of organization. Realization of this public reaction has brought home to the national banks the unlimited possibilities of trust powers, resulting in the increasing tendency of nationals to avail themselves of these powers. Parenthetically, let me express my satisfaction over the fact that the feeling of resentment on the part of some trust companies which earlier was evident has died out. May it never reappear! There is ample trust business yet undeveloped to busy us all for years to come and the efforts of national banks add impetus to the general flow of public patronage.

Great Increase in Wealth

WE are told that we are the richest nation on the globe—the most recent authoritative estimate places our national wealth at more than \$350,000,000,000.

Time was when the problem of considering how an estate should be distributed bothered only a very select few. The expectation of being able to leave behind enough in worldly goods to be dignified by the term "Estate," was far beyond the thoughts of the average man. Indeed, it was not uncommon for some of our illustrious forebears to leave a populous family of ten children and a legacy of debts to commemorate their passing. But this is no longer true.

Our ideas of what constitutes great wealth have likewise undergone a change. George Washington was one of the wealthiest men of his times. Yet the value of his estate was found upon his death to be only \$530,000. An inspection of the government's records reveals that, during the year 1926, there were 183 estates—all worth at least a million dollars and many worth vastly more—that paid federal estate taxes. Since 1916, the Treasury Department reports that more than 1800 estates in the million-dollar-class were passed on to fortunate legatees.

While these vast estates stir our imagination, it should not be assumed that it is only among our very wealthy that the problem of distribution rests. For, with the increase in real wages, the growing use of life insurance, the constant enlargement of the legion of security owners and the widespread diffusion of wealth, it has come within the range of Americans in all walks of life to build up a competency and leave an estate for the protection and benefit of their families.

Within a few decades, we have witnessed what might be termed a revolution in the frame of mind of the American people! More and more they are becoming estate-minded and giving thought to the best methods safeguarding their family's future. With this growing change in public consciousness, the opportunities for the corporate fiduciaries are constantly enlarging. With their modern facilities for attending to the highly specialized business of administering and managing estates, they are better equipped than any individual can be to perform these intricate tasks.

The great industries that have been developed in the United States are largely the fruits of combined capital. The funds have come from thousands of individuals, who have contributed a part through the purchase of a bond or who have bought a fractional interest as shareholders. Under deeds of trust the properties of great corporations and industrial enterprises have been conveyed to corporate fiduciaries to be held as a pledge that the bonds would be paid in accordance with the promises given. The interests of stockholders have been protected from over-issues of shares. When the ownership of shares has changed, a corporate fiduciary has seen to it that these transfers were recorded. Serving as this useful intermediary, worthy of the confidence reposed in it, the trust company has had an important part in the rise of the corporation as a modern business instrumentality.

A National Survey

JUST as the corporation proved to be far superior to the partnership as a means for doing business, so is the corporate executor replacing the individual in the business of settling and administering estates. A national survey just completed by the Trust Company Division of the American Bankers Association shows that there has been a 374 per cent increase within the past four years in this field of personal trusts. The number of times that trust companies and banks were named as executor or trustee under wills during 1927 was four and one-half times as great as in 1923. So it may be said that this movement is progressing impressively; yet nothing approaching the real possibilities in volume of personal trusts has yet been attained.

With all this tremendous increase in fiduciary business, still we hear occasionally some complaint, especially in the Middle West, that the public is not more ready to adopt the trust idea. This seeming lethargy, I believe, has a reason—namely our Western youthfulness. The states beyond the Mississippi are really only in their second generation of business men. In other words, we have too few grandfathers. We have been so busy making money and developing virgin wealth that thoughts

of conservation have been crowded out of mind. What is true of the West is only a matter of degree. All America is yet too young to comprehend fully the trust idea. Our trust companies are trying not to be impatient of our lot. We shall forge ahead in due time through intelligent and persistent education. Which brings me to the subject that I want to touch upon briefly. By no means are these remarks to be interpreted as a keynote of my administration. But they do represent what is uppermost in my mind at the moment—namely, our cultivation of favor with certain groups or classifications of patrons.

The Insurance Trust

ABOUT five years ago, the life insurance field was shocked by a movement among trust companies which was promptly branded with the ugly name of usurpation. The financial octopus was about to fasten its vicious tentacles around a vital part of the insurance body and strangle its pet prerogative—the annuity or monthly remittance. Insurance salesmen and even some executives rose up to assail the idea.

It was not long, however, before men of eminence in insurance circles began to realize that the insurance trust is a cooperative method of creating a tremendous volume of new business for both insurance companies and trust companies. That it is destined to relieve the insurance companies of a responsibility which they could never hope to discharge with more than indifferent success, and to place that responsibility upon the trust companies, where it can be and is being discharged with outstanding success.

Our work of educating the insurance counsellor to the trust company idea is only begun, but I am happy to hear from all parts of the country that as they learn of the advantages of the insurance trust and recognize the mutuality of interests, their resistance disappears and they become our salesmen.

If you will indulge me again in figures, you will readily see why I lay stress upon the insurance men as one of our especially lucrative groups of prospects. Fifteen years ago life insurance in force in the United States was approximately twelve billion dollars. Today it is in round figures nearly ninety billions. Doesn't that give us a vision of possibilities? Doesn't it bring to us a sense of our responsibility as sponsors of estate conservation?

It is also encouraging to note the constant extension of cordial relationship with lawyers throughout the country. Time was only a few years ago that a misunderstanding existed between our trust companies and the members of the Bar, but happily the breach which threatened has been closed so that full cooperation of both professions makes possible a service that is of incalculable value to everyone needing legal as well as fiduciary help.

The Future of Trust Functions

CLASSIFICATIONS would indeed be incomplete if I failed to mention the bank's own family of patrons. The commercial department of the bank offers a field for trust development wide enough to occupy the

major part of our sales effort. There is no doubt that the commercial side of banking at present overshadows the trust features. Perhaps it always will be so, for the everyday work of trade and commerce engages more capital than do fiduciary matters. Let us not however overlook the future of trust functions which seems to offer profits second only (if at all) to the older forms of banking. Remember that all the wealth which is possessed today will pass to other hands within one generation. Whenever property in quantity passes by inheritance there is need for fiduciary service with resulting legitimate profit.

Considering the general public—the mass of population not yet ready for trust features. Just how much general publishing of the advantages of our services is profitable, I am not prepared to say, nor do I believe that anyone can accurately measure its effect. This I do know, however,—that struggling young men often become wealthy middle-aged men and whenever a man has accumulated a competency he is a prospect for trust services. While intensive personal work on him may well await his affluence, certainly it is important that the seeds of desire be sown and ready to sprout when his season comes. I cannot pass this subject without tendering my compliments to the Publicity Committee of the Trust Company Division for the splendid work it has done in promoting the trust idea.

In closing, I want to bring to you one further thought. There has developed lately a startling, though not altogether unexpected, tendency toward consolidation of competitive interests. In that respect, banks seem to be following the times. I believe in reasonable concentration of financial strength, for only from great sources can great help be derived. Thirty-five years ago, there were as many banks in the city of New York as there are today, with half the present population. Will anyone say that the banking business in New York is not better conducted today than ever before? Financial institutions are now enjoying public confidence in greater degree than ever and it is because they are deserving of it.

Since the days when the Sherman Act was a sizzling subject, when Americans shrank from the idea of huge consolidations, there has been a gradual recession from that fear. The man on the street in those days spoke of millions in a hushed voice. Today, he is supremely blasé in speaking of billions.

Consolidation within itself is not dangerous. The danger lies in weakened management. Safety of the new economic trend toward consolidation shall come through the realization in the hearts of business men and especially bankers, that they are the recipients of great and growing public confidence. Let us never violate that confidence by even slight departure from financial righteousness.

I am very proud of trust company history in the United States. No loss, I am told, has ever resulted to a trust fund through malfeasance of a trust company officer or executive. It is a record that inspires our confidence in each other, as well as great public confidence. Upon such a record we can with perfect assurance base our invitation to the public to take full advantage of the services we render.

The Statesmanship of Business and the Business of Statesmanship

A Point of View Respecting Business and Politics

By GLENN FRANK

President, University of Wisconsin, Madison, Wis.

OF one thing I am sure—you did not invite me here under any delusion that I am a banker or that I know anything you do not know about the mystical secrets of high finance. It would, therefore, be a sterile presumption on my part to try to discuss with you any of the technical aspects of trust company procedures. You do not, I am sure, expect me to do that. And I have no desire to assume the glib omniscience of the after-dinner speaker who can solve everybody's problems but his own.

I want instead to tackle a problem which, although it strikes to the heart of your particular interest as business men, is also the legitimate concern of every decently informed layman who wants to follow intelligently the tendencies of his time and to forecast as accurately as he can the destiny of the country he must bequeath to his children. The problem I purpose to discuss is the inter-relation of business and politics in the development of the American future. And I use the word business broadly as a covering term for all the factors immediately and indirectly involved in the processess of production and distribution—industry, labor, agriculture, banking, merchandising, transportation, and so on.

The Inter-relation of Business and Politics

THE inter-relation of business and politics has too often been over-simplified by two groups. It has been over-simplified by the politicians, and it has been over-simplified by the business men.

The politicians have often over-simplified the problem by assuming that business is essentially an anti-social process, that the more successful it is the more sinister it is, and that the primary relation of politics to business is that of a policeman shadowing a suspicious character.

The business men have often over-simplified the problem by assuming that business is essentially a private hunting preserve, that any suggestion of social concern with business policy or social control of business power is an impertinent intrusion, and that Utopia would be just around the corner if they could only get more business men into positions of political power, or failing that, to fill strategic offices with colorless and controllable puppets, and put an end to governmental interference with business.

Both of these points of view are, in my judgment sterile. They leave untouched the positive problem of a statesmanlike inter-relating of business and politics. Both deal exclusively with the negative problem of the abuse of business power. One asserting it; the other

denying it. One is a catch-the-criminal philosophy of business and politics; the other is a dodge-the-policeman philosophy of business and politics. Neither is worthy of the genius of America.

Both of these points of view are, in my judgment, inadequate, because both seem to regard modern business as just a big burly boy who has suddenly come into a neighborhood, and about whom the boys already there have only two questions: Shall we let him do as he pleases or shall we try to control him?

But modern business is not merely an alien power standing outside the modern social order. And yet neither American politicians nor American business men have fully and frankly faced the problem of a statesmanlike incorporation of the modern business system into the modern social order.

We have blandly and blindly gone on the assumption that the philosophy and machinery of the American social order were settled once and for all when the Republic was founded, and that modern business, which has come into the picture since, is simply a new form of power that must operate within this fixed and final scheme and be adequately policed while it operates. We have largely ignored the possibility that the rise of modern business and modern industry may make necessary profound and far-reaching changes in the whole philosophy and machinery of the American social order.

A New Politics Possible

IT may be that the New Business will make necessary a New Politics, a new conception of the American social order, a conception that will give us both a sounder business and a sounder politics. The problem of the control of power will, of course, always be with us. In any social order social safeguards against the abuse of power must be devised. The concentration of great power in the hands of any group—whether it be a group of business men, a group of laboring men, or a political party—will always carry with it the temptation to prostitute that power to narrow group interests. But we would take a more effective step than has yet been taken toward safe-guarding ourselves against the *abnormal abuse* of business power if we incorporated the *normal use* of business power, in a more statesmanlike manner, into the whole political, social, and economic scheme of the nation; that is to say, if we frankly recognized that modern business and modern industry have given us a social order that is radically different from the social order in terms of which the theories and techniques of

our politics and government were first formulated, and made whatever political and social readjustments the new facts make necessary in the interest of wisdom, justice and efficiency.

All the main patterns of our politics were formed when we were a small nation, populating a relatively narrow band of territory along the eastern edge of the continent. Large-scale business and industry had not entered the picture. The social order was predominantly agricultural. Men's interests were simple and similar. It was not such a difficult matter to make representative government work in such a stage-setting.

Today we are a large nation, covering the continent. Our social order is both agricultural and industrial. Men's interests are no longer simple and similar; they are complex and conflicting. It is no easy matter to make representative government work in this new stage-setting. Every year the problems with which government must deal grow more technical and less political in the old sense of politics. Every year the honest and intelligent amateur, who would have been an ideal political representative in 1828 finds his equipment less and less adequate for the challenging job of statesmanship in the complex and technical civilization of 1928. His plight is becoming increasingly pathetic. His difficulty grows out of the fact that an old political order is trying to administer a new social order. And many of the old tools are not adjusted to the new tasks.

Old Political Order Inadequate

SOONER or later, as a nation, we must face the political implications of the following obvious facts:

We are no longer a small nation; we are a large nation.

We are no longer in a simple civilization; we are in an increasingly complex civilization.

We are no longer an agricultural nation alone; we are an industrial nation as well.

And I suspect that, when we tardily get around to facing of the political implications of these facts, we shall discover ourselves forced to reconsider and reconstruct some of the fundamental theories and techniques of representative government and the party system. I want tonight to suggest some of the questions I think we shall face when we undertake this reconsideration and reconstruction of the old political order in the light of the new social order.

Let me state the four grounds upon which I base the belief that the old political order is inadequate to deal with the problems created by the new social order:

First, a haunting fear that as a nation we may be too big—physically too big—ever again to develop a political statesmanship truly national in outlook and influence.

Second, a growing belief that modern society is passing out of the age of politics, and that the real centers of social authority, social power, and social control are rapidly shifting from politics to other fields—to business, to industry, to agriculture, to labor, to the professions, and other non-political functions and organizations of society.

Third, a reluctantly-arrived-at suspicion that the performance of political democracy, as popularly conceived

and carried on, is not living up to the promise made when mankind cut loose from the arrogant assumptions and abused authority of kingships and aristocracies and set sail on the seas of self-government.

Fourth, a clear conviction that the permanent political party automatically destroys its own usefulness as an agency of statesmanship and that very little in the way of creative and courageous statesmanship can be expected from any permanent political party after it has lived past the handling of the particular issues that called it into existence, save in glowing moments of exception when God lends one of his prophets to politics to dominate a party by sheer force of mind and personality, or in great crises when men adjourn the motives and methods of feeling and thinking that normally move them.

And now let me discuss with the utmost brevity, these four considerations in turn:

Difficulty of Thinking Nationally

FIRST, *I sometimes wonder whether it may not be that we have become so big—physically so big—that we shall find it increasingly difficult to maintain a political statesmanship truly national in outlook and scope of influence.*

The greatest civilizations have usually flowered from small areas. The majesty of ancient Greece was born in a tiny territory. The Greece of ancient greatness is dead, you may say, but being dead, her intrinsic quality still lives to water the parched roots of the world's culture and the world's conscience, whereas the more bulky civilizations of antiquity have died of dropsy and left a doubtful heritage. With great empires and vast civilizations, it seems, as Dean Inge has suggested, that nothing fails like success.

We have yet to realize the profound influence that the sheer extent of American territory is exerting on American thought and American politics. One effect, at least, is obvious. Except in moments of great crises, the wide sweep of our territory makes it almost impossible for political leadership to get us to think nationally and to achieve national unity of purpose or policy. The sprawled-outness of the United States makes us tend to think regionally instead of nationally. There is an Eastern mindedness, a Southern mindedness, a Middle Western mindedness, a North Western mindedness, and so on. If one doubts the reality of these regional minds, one needs only to watch the national committeemen of the Republican and Democratic parties as they wrestle with these rebellious localisms that are straining at the leash of regularity.

I do not mean to say that these regional minds are not still pretty docile when the pinch comes in a national election. Up to date, their bark has been worse than their bite. Traditional loyalties die hard. Any established political party can count ancestry and inertia among its allies. But the existence of these regional minds is a fact with which the student of the American future must reckon.

I do not mean to say that we never think nationally—all at the same time about the same thing. We do—about certain things and under special circumstances. We have developed an advertising technique, for in-

stance, that can make a breakfast food, a tooth paste, or a garter a "household word" throughout America. And we do, once in a blue moon, pull ourselves together and think all at once about political policy, provided it is dramatically linked with the crowning or the crucifixion of some nationally known leader, so that we can register our verdict with a simple hiss or hurrah. But the fact remains that, save in times of crises, it is very difficult for political leadership to focus the attention of this entire people upon a statesmanlike political program.

Political leadership may some day fashion the now peril-laden processes of propaganda into a social tool of national value. But we must remember that there is danger as well as promise in any methods and machinery we may devise for spreading ideas quickly over this vast nation. Our very success with them might mean only an increasing standardization of American thought. And a nation's thought would better be scrappy than standardized. It is still an open question whether we can nationalize 120,000,000 minds without numbing them.

Of course, we now have the radio that may overcome the sterilizing effect of distance upon the struggle for national mindedness. But I suspect that we shall have to wait for the creative political effect of the radio until less of its output consists of nasal renditions of "How could little Red Riding Hood have been so good and still keep the wolf from the door?"

Non-Political Forces

SECOND, *the evidence seems to me cumulative that modern society is passing out of the age of politics, and that the real centers of social authority, social power, and social control are rapidly shifting from politics to other fields—to business, to industry, to agriculture, to labor, to the professions, and other non-political functions and organizations of society.*

One of the most significant symptoms of the present status of politics in America in the growing army of non-voters. We are fast approaching the time when not more than half the adult citizens of the nation will exercise their right to vote. How shall we project the political future of a nation in which half the citizens maintain a persistent boycott of the ballot box? On the face of it, for the citizen of a democracy to throw away his ballot on election day is like a soldier's throwing away his sword on the day of battle. And yet I find myself less and less inclined to think that the failure of the average non-voter to vote is due to social irresponsibility. I suspect that the increasing mass of non-voters stay away from the polls for a dimly felt rather than clearly conceived reason—a growing feeling that life flows along pretty much the same regardless of the party or the persons in power, that the real tone and temper of life are largely determined by forces outside the field of politics.

And this dim instinctive feeling of the non-voter is not without a foundation in reality. The future of the American social order is in the hands of non-political forces, which today represent the real sources of social authority and social power. My guess is that the greatest social progress in the next fifty years will come as a by-product of technical progress. The most significant

revolutionists of the next half century are likely to be the engineers, the inventors, and the business men who rise above the level of mere tradesmen and money lenders to the dignity of industrial and social statesman.

I have time for but one illustration of the way in which many of the social gains we have unsuccessfully tried to realize in the past through political action are likely to be accomplished in the future as by-products of technical progress in business and industry.

Bad Effects of Centralization

THE muckrakers of the Occident and the mystics of the Orient have long been hurling their criticism against certain obvious human disadvantages that have followed the excessive centralization of industry, the crowding of production into huge industrial centers where congestion has bred its ugly offspring. They have sought to relieve and remove the bad social effects of industrial centralization by means of political and social reform movements. The results of these political and social reform movements have been distressingly transient. Their results have been but temporary because until lately it has been technically imperative that large scale industry be highly centralized. There are certain human disadvantages that are inseparable from excessive industrial centralization, and as long as it is technically imperative that industry centralize, industry will create these human disadvantages faster than any outside reform agency can correct them. Seeing that the results of their social and political reforms have been fleeting in character, many of the critics of machine civilization have thrown up their hands in despair and have turned either to a philosophy of social revolution or to a philosophy of spiritual retreat.

The Coming Decentralization

BUT just as the apostles of social progress are throwing up their hands in despair of ever being able to control the human disadvantages of excessive industrial centralization, the forces of technical progress seem destined to remove the human evils of centralization by rendering centralization technically unnecessary.

From a technical point of view we are today in a twilight zone between an old machine industry that rested on steam power and a new machine industry that will rest on electric power. And between the two there is a difference as wide as the world. In a machine industry resting on steam power, the worker must go to the power; in a machine industry resting on electric power, the power can be taken to the worker. A machine industry resting on steam power must centralize; a machine industry resting on electric power may decentralize.

The political and social critics of machine industry have until recently assumed that we could not have mass production without centralization, and so they have said that we could not remedy the human evils of centralization without renouncing mass production. They knew that we would not renounce mass production and go back to cottage industries—except, perhaps, in the case of home brewing—and so they have, here and there, given up hope of correcting the human disadvantages

of centralization save through a radical revolt against machine industry itself.

And if the technical necessity for industrial centralization should remain, these political and social critics would be logically correct in their conclusions. But the outlook is that technical developments in the generation, transmission, and sale of electric power will ultimately make possible the carrying on of mass production more profitably in a decentralized than in a centralized industry. It is probably only a question of time until American industry will stop the complete manufacture and assembly of all the parts of complicated machines and of even simpler commodities in great industrial centers. The various parts will be manufactured in factories located at the varied sources of their raw materials. For a time great industrial centers will persist as points at which the parts, manufactured elsewhere, are assembled and from which they are shipped to local markets. But in time it is probable that the great congested industrial centers will disappear even as points of assembly, for ultimately we shall ship parts to the very doorways of local markets for assembly.

In short, we are on the eve of an era of giant power that will make it possible to put our factories at the sources of our raw materials rather than at the sources of our motive power only. This will mean the decentralization of industry. And when industry is decentralized, many of the ugly social problems that have followed in the wake of industrial centralization will automatically disappear, because their root cause has disappeared.

The amazing fact of mass production and mass distribution is this—in the hands of really great industrial statesmen mass production and mass distribution make possible four seemingly contradictory things at one and the same time: higher wages, shorter hours, lower prices, and larger total profits. These four things, taken together, afford a richer and more realistic foundation for sound social progress than has ever been provided by political or social proposals. But in a system of centralized machine industry the immediate personal benefits of these four things come most richly to the great industrial centers, although, of course, they indirectly benefit even the most remote regions; but mass production in a decentralized industry will spread the immediate personal benefits of these four things throughout the nation.

If time permitted, a score of illustrations could be marshalled to show the way in which social benefits we have hitherto failed to secure through political and social action may yet be realized as the automatic by-products of technical progress and the socio-economic readjustments involved.

The virile forces of our new technical civilization are straining against the theories and techniques of our political order that were devised in terms of the old pastoral civilization with which the Republic began. A system of representative government that may be admirably adapted to a pastoral civilization may signally fail to function effectively in a technical civilization. At Washington one may see the beginnings of a definite contest between the forces of the old political order and the forces of the new social order born of technology and industry.

The Third House of Congress

IN the little red covered text book on civil government, that I studied in a one room school in Missouri, I was told that the legislative branch of our government was bi-cameral, which, as the patient teacher explained, meant that the national legislature was made up of two chambers or two houses—the Senate and the House of Representatives. I believed this for a long time, so naïve was I. But a few years ago I began to realize that our national legislature at Washington is not bi-cameral but tri-cameral, that it is made up, not of two houses, but of three houses—the Senate, the House of Representatives, and a third house that is not provided for in the Constitution. This third house is unofficial, its members are not assembled on the same principle of representation that holds in the Senate and in the House of Representatives; it represents the forces of our new technical civilization, sometimes blunderingly, sometimes selfishly, but nevertheless represents them.

This is the way I discovered the existence of this third house of Congress. One hot summer evening I was driving about Washington with a veteran journalist who had been through the muckraking period that stirred the nation years before. We were talking about government as it is supposed to be and government as it really is. We talked about the old secret lobbies that played such a picturesque and powerful part in national legislation years ago. We talked of the way in which an awakened public opinion had swung the sword of blame against these lobbies, driving them out of Washington—or further underground.

As we reached this point in our talk, our car passed a block in which excavation was going on. "What's going up here?" I asked. "This," said the veteran journalist, "is to be the new home of the Chamber of Commerce of the United States." A little later we passed the headquarters of the American Federation of Labor. And we fell to talking of the rapid development, during the last twenty-five years, of Washington headquarters for organizations representing such group interests as business, labor, agriculture, and so on. With the aid of a telephone and city directory, a little later in the evening, we succeeded in identifying fifty-one professional and occupational groups that were maintaining Washington headquarters manned by more or less expert staffs. These expert staffs were not there as secret lobbies. They were there openly and above board to "represent" their constituencies. The Senators and Congressmen over at the Capitol were there to represent "geographical areas" such as states and congressional districts. The experts of these headquarters were there to represent particular "interests" such as wages, hours of labor, working conditions, railway rates, prices, profits, and so on.

If you could assemble all these professional and occupational headquarter staffs under one roof, you would have, in effect, a third house of Congress. This third house is a very real factor in Washington today. It is gradually supplementing official representation by political representatives with an unofficial representation by professional representatives. No single group is responsible for this development. Business man, farmers, work-

ingmen, all alike share in the building of this third wing to the house of representative government.

Newer Forms of Representation

BEYOND the purely selfish group interests that all of these headquarters frankly serve, their existence is one of the signs that our complicated technical civilization is instinctively feeling its way toward some newer forms of representation that will bring an expertness of information and interests to modern problems that the old pastoral political system does not guarantee. As long as these expert representations of fundamental group interests are left lingering on the outskirts as merely more respectable forms of lobbying, their constant temptation will be to degenerate into nothing more significant than lobbies for limited group interests. I suggest that some day we must seriously consider the wisdom of incorporating this principle of expert group and occupational interests into our official political procedure. The increasing complexity of our technical civilization cries aloud for it. What form such a new move should take no one can say off hand. We might see fit to convert one of present chambers of Congress into a body elected to represent interests rather than areas. Or we might find it wisest to create a third house of Congress—a House of Technologists, by which I mean simply a body to which we would elect men because they have wide and accurate knowledge of business, agriculture, labor, transportation, taxation, education, and other specialized interests, rather than because we think they are honest men with a knack for getting votes in the first congressional district; a house in which the conflicting groups of our technical civilization would be challenged to a co-operative consideration of their respective problems; a house that might be given no more than the limited right of proposing legislation; a house that would give the forces of our technical civilization the right of direct counsel instead of the necessity of indirect lobby.

Is Democracy Fulfilling Promise?

THIRD, *I have come reluctantly to the suspicion that the performance of political democracy, as popularly conceived and carried on, is not living up to the promise made when mankind turned away from the arrogant assumptions and abused authority of kingships and aristocracies and set sail on the seas of self-government.*

At least a dozen major considerations have given rise to this suspicion. I mention but one of them here, namely, the increasing inability of democracy to attract, and the increasing reluctance of democracy to tolerate, its ablest and strongest men in positions of leadership. A simple civilization can survive a mediocre leadership; a complicated civilization cannot. Every year our civilization grows more technical, more complicated. Every year the problem of coordinating, in the interest of the common good, the conflicting elements of a new social order that is in the making calls for an abler and abler leadership. It becomes our duty, therefore, to ask and to ascertain whether our democracy is attracting and using stronger and stronger leaders or weaker and weaker leaders.

There is no magic in democracy that does away with the need of leadership. Democracy must both create and control its own leadership. And it cannot afford to neglect either half of this responsibility. If a democracy thinks only of the creation of leadership, forgetting its control, it may end the vassal of a dictator. If a democracy thinks only of the control of leadership, forgetting its creation, it will end the victim of mediocre leaders who are more interested in holding a job than in doing a job. Democracy is still young and we may yet go on the rocks if we blunder in this business of creating and controlling our leaders. When humanity smashed the twin traditions of the divinity of kings and the docility of subjects, the whole problem of finding and following leaders had to be worked out on a new basis. So far we have not—if we are willing to be honest—made much headway with the problem. We spend half our time crying for great leadership, and the other half crucifying great leaders when we are lucky enough to find them, until some of the most penetrating students of society are beginning to ask: Will free men ever be resigned to leadership?

The Danger of Democracy

THE danger of our democracy, as I see it, lies in our tendency to select leaders who are similar to the rank and file of us, whereas the hope of democracy seems to me to lie in our selecting leaders who are superior to the rank and file of us. This cuts to the heart of the whole problem of leadership in a democracy. Just what should we look for in our leaders? Should we hunt for leaders who will lead us or for leaders who will follow us? Should we look for leaders who will always think like us or for leaders who will sometimes think for us? Should we elect men to office because they promise to vote for certain measures or because we can trust their minds and their morals to guide them aright on measures in general, once all the facts are before them? Can we run American democracy on the theory that the patient should always dictate the physician's prescription?

Our Republic began as a government by trusted representatives. Experience proved that very often representatives do not represent. For self-protection we began to throw all sorts of restrictions around our representatives. We devised the initiative, the referendum, the recall, the popular petition, and now the widespread practice of the post-card referendum. Let me be clear about this matter. These devices were called into being by the obvious failures of trusted representatives, but the upshot of the matter is that we are today drifting into government by instructed delegates. The riddle we have not yet solved is this: How can a republic hobble its faithless representatives without hamstringing its faithful representatives?

The theory of leadership upon which our Republic is based is that representatives shall be human substitutes for their constituencies; our current practice respecting leadership is to make our representatives phonograph records of the fluctuating moods of their constituencies. And a democracy is always in danger when its most popular leaders are those who most quickly carry out the

orders of a post-card bombardment from the folk back home. Democracy will be doomed if it finally makes subservency of spirit a bigger political asset than superiority of mind.

We began with the theory of a responsible government. We are acting on the theory of a responsive government. Somewhere between the two we shall find great leadership and good government. Unfortunately strong men often become poisoned by their own power and so forfeit the confidence of their fellows. This may be why democracies have always been suspicious of their powerful men. But we dare not ignore the fact that no form of government can endure that trusts only its mediocre men in positions of leadership. The most difficult lesson American democracy has to learn is this—to learn to tolerate leaders who are great enough to differ from their constituencies when necessary.

Until democracy learns this lesson it cannot hope for really great leadership in public affairs. For no man of authentic greatness of mind and character will purchase political position at the price of adjourning his own intelligence and becoming the errand boy either of Main Street or of Wall Street. The great leader will be the creative servant of the real interests of both Main Street and Wall Street, but the cringing slave of neither.

'The Permanent Political Party

FOURTH, *I am convinced that the permanent political party automatically destroys its own usefulness as an agency of statesmanship, and that very little in the way of creative and courageous statesmanship can be expected from any permanent political party after it has lived past the handling of the particular issues that called it into being, save in glowing moments of exception when God lends one of his prophets to politics to dominate a party by sheer force of mind and personality, or in great crises when men adjourn the motives and methods of feeling and thinking that normally move them.*

When a political party is born out of some great crisis, it is a device for assembling like-minded men around

some definite issue. If a political party lives past its first battle and becomes a permanent organization, it sooner or later degenerates into a device for assembling indefinite issues around a membership of men and women who are not like-minded. Its platforms in successive campaigns will be produced by a search for the sort of statement that will serve as the lowest common denominator of the divergent party membership, hold together the various groups within the party, and snare the largest number of votes. Born as a body of like-minded citizens, it becomes in time a body of men and women held together in an artificial and delusive union by social pressure for regularity, the lure of the advantages of office, or merely of the influence of ancestry and inertia.

A political party, save in its early years, simply cannot afford to be clear and courageous about issues, especially if they are vital. "But that would split the party" is the rock upon which intellectual honesty, moral courage, and statesmanship smash in the councils of all permanent political parties. There are today as wide differences of opinion on all vital issues within our parties as there are between our parties—in fact, wider. In each party, alike, some are members of the Ku Klux Klan, and some its bitter enemies; some who think we should enter the League of Nations, and some who think it would mean national suicide; some who worship at the shrine of St. Volstead, and some who long for a moister regime; some who think there is danger that the Catholic Church will get control of our government, and some that there is equal danger that the Protestant churches will get control of our government.

In such a situation, pity the poor devil who must play political leader. He must, to use a figure from John Bright, produce like a conjurer port, champagne, milk, and water out of the same bottle.

Certainly no one has yet devised a workable substitute for the permanent political party, but I suggest that one of the real problems confronting American leadership is to devise ways and means for breaking the embargo that the permanent political party system lays upon creative and courageous statesmanship in political leaders.

Staff Relations Conference

Friday Morning, February 17, 1928

THE meeting of the Committee on Staff Relations, Trust Company Division, American Bankers Association, convened at ten-thirty o'clock, Mr. P. S. Kingsbury, Chairman of the Committee, and Assistant Vice-President, in charge of the Personnel Department of the Cleveland Trust Company, Cleveland, Ohio, presiding.

MR. A. V. MORTON: Mr. Kingsbury has asked me to open the meeting of the Committee on Staff Relations. It is very gratifying to me to see such an interest as is represented here by this group of men, because I feel that the question of staff relations is one that is lost sight of to quite an extent, and it is one of tremendous

importance. I have spent all my life in big organizations and the opportunities for lost motion, overlapping of duties, particularly in large institutions, is growing rapidly. It seems to me that that is one reason why this question should be given a great deal of study and thought.

Mr. Kingsbury of the Cleveland Trust Company is the chairman of this meeting, and I am going to relinquish this place to him. Of course, the activities of all these committees have been tremendously helped by our friend, Mr. Mershon. As you all know, Mr. Mershon is leaving us to accept a vice-presidency in one of the big trust companies in New York, so that this meeting has more significance than it otherwise would. I

have been associated with Mr. Mershon for a good many years, and the work, the advice and the help he has given me has been of incalculable assistance. I am very glad to see you all here, and I wish the meeting a great deal of success.

CHAIRMAN KINGSBURY: I am gratified to see the number of men who have found it possible to be here this morning. It signifies an appreciable amount of interest in the thing which the Committee is attempting—a study of personnel problems. This particular meeting is the first of its kind and must, consequently, be considered as more or less of an experimental nature. I hope before the session closes this morning to have secured the sentiment of those present, and fortified with those opinions, I trust that the Committee can plan for something in the future that will be really constructive in a broad consideration of the handling of staff relations.

Committee's Past Activities

BRIEFLY, may I take time to state what the Committee on Staff Relations has accomplished, or better possibly what it has not accomplished during the time it has been in existence. The Committee was appointed some six or seven years ago with the idea of assembling information about the best methods of handling bank personnel, and of disseminating that information so that members of the Trust Company Division might get a definite idea of what others were doing in handling the rather intricate problems of staff management.

The first venture of the Committee was to send a questionnaire throughout the country, making inquiry about the methods of handling personnel. The answers were then tabulated and distributed. From the replies it developed that only seven per cent of the seven hundred and twenty-three banks and trust companies an-

swering had a centralized employment or personnel organization. In this inquiry one of the most pertinent questions asked was whether or not the public expected more service on the part of employees than in previous years. Eighty-five of those answering stated that much more was expected in the matter of such bank service. The replies showed, however, that very little attempt had been made on the part of the banks to train their employees to meet this increased service expectancy.

Later another questionnaire of a somewhat similar character was sent out to a selected group of trust companies. Finally, a group of articles was asked for and written by various bank officials. Neither the result of the second questionnaire nor the articles written have been distributed, although the reports have been made at the annual American Bankers Association Conventions. For the past year or two there has been practically no activity on the part of the Committee.

It now seems to us, after conferring with Mr. Mershon, that if there is any value at all in having a committee organized to study staff relations, the wise way to go about it is to call together trust company officers who are really interested in and actively engaged in handling personnel, and to go even farther and interest bank executives who may not be intimately connected with the detailed management of the staff in their particular organization, but who are the men whose interest largely controls the activity of officers and personnel directors directly charged with handling staff relations.

The meeting this morning is the outcome of that decision. A little later I shall ask you for some definite suggestions covering your idea of the procedure which we should follow. For the present I wish to turn the meeting over to a man whom I have asked to address you, Mr. Cameron Beck, Personnel Director of the New York Stock Exchange. Mr. Beck stands high in the profession of personnel man, and I have asked him to talk to us on the general subject of personnel work.

Youth—the Beginning of Right Relations

By CAMERON BECK

Personnel Director, New York Stock Exchange, New York, N. Y.

MR. CHAIRMAN, Ladies and Gentlemen: I want to speak to you this morning about four outstanding responsibilities which I, as a personnel director, like to think I have.

I like to think that my first responsibility is to my employer, the man who gives me my job and the man who pays me my salary. I have been up and down this country a lot and have sat in audiences where they have discussed the sharing in the bosses' profits, but I have yet to sit in a meeting where they discussed the sharing of the bosses' losses. I think the time has come when some capable person should go up and down this country and say a few words in behalf of the much maligned employer. The man who does the worrying

and the man who takes the risk. I am not talking about the employer who has always looked on help as a commodity. One of the best uses for our empty ships would be to load them with these employers and ship them out.

Second, I believe I have a responsibility to the individual employees on our payroll. That's hard, you say. Of course it is, especially in these large organizations. I like to think that each employee on my payroll, whether in the engine room or in the secretary's offices, is an individual who has hopes, who has ideals, and who has aspirations.

May I say to you that our "top management," and by that I mean our Board of Governors of the New York Stock Exchange, will go the limit in the defense of a

boy if we believe he is right. There are a lot of times, I have found out in nine years' time, that it is perfectly possible for a seventeen-year-old employee to be absolutely right, and a foreman of forty years, dead wrong. We won't allow any disciplining in the presence of others and neither will we allow an employee to be disciplined until the employee has had a chance in the quiet of the private office to tell his story. When you take time to listen to their stories you learn a lot of things.

A while ago my automatic rang and a foreman phoned and said that he had had a little trouble with a boy. . . .

"Bring him up," I said.

He came up, his face just as red as it could be and Herbert's as white as a ghost. I asked them to sit down and then in order to give the older man a chance to get his blood pressure back to normal I left them for ten minutes. Finally he said:

"This boy called me a lot of dirty names."

"Bad stuff. Saw them suspend a member of the Stock Exchange thirty days for that once. When did he call you the names?"

"He didn't call me the names."

"What on earth happened?"

"He went back into one of the telephone booths (we have 750 telephone clerks who operate the private wires) and used this language." The telephone clerk had told him about it.

"Give me the name of the clerk and I will get him right up here."

"He doesn't want his name known."

"You want me to discipline this boy on the testimony of a man who won't come up himself? That stuff died nine years ago."

In a manufacturer's meeting I told that story and a prominent manufacturer came up to me and said:

"You'd call a foreman down in the presence of an employee?" (Referring to this story.)

"Sure. Why not?"

"Heavens, if I did that in our factory the whole works would blow up."

It hasn't done that for us. I will tell you exactly what it has done for us—it has made our foremen very careful to analyze a case before they bring it to the mat. We haven't had a bit of trouble with it at all. I think a lot of foremen have some of our management "buffaloed" in many places in this country.

A man said to me the other day, "I would rather try to call on God than that personnel director." I was told by a man I have known twenty years, "Beck, I am through sending any man to that personnel man."

"Why?"

"I have sent some outstanding young men up to see him, within the last four days. Ten of them who did not know each other have each one of them come back, thanking me for sending them up but saying that that personnel man insulted them in his office and they wouldn't work for him for anything."

Loyalty in Industry

I DO not think you can get a loyal force simply by a payroll. I think loyalty in industry will come when "top management" is loyal, and when "top manage-

ment" is loyal you will find these folks down below will be loyal.

The third thing I would suggest is a civic responsibility. I feel that more keenly today than I ever did before. I like to feel because we are employed we have a definite responsibility to the community that sends us our help, to see to it that the people who work for us go back at night better citizens than they were when they came to work in the morning.

A woman came to me recently looking for a position, who before the war never had to worry about anything. Her husband died for us on Flanders Field. She said:

"Mr. Beck, I thought Jim would like to have me carry on in his place."

"Are you employed now?"

"I am employed, but the conditions are so unspeakable in the place where I am working that if it were not for the fact that I have to have bread, I would not go back for my salary." I want to say to you folks, and very frankly, if we are not willing to go to the defense of these defenseless people in industry, who on earth is going to do it? I want to say that not once in the nearly ten years I have been at the New York Stock Exchange has our management failed to sustain me in any of these moral problems. There are a lot of things bigger than a job. Let's see to it that we stand our ground when there are issues at stake.

Last, I like to think I have a responsibility to the people who come in our office, who are looking for employment. You folks look prosperous and I do not suppose you ever had to go out and apply for a job. If you want an experience sometime, get out of your glad rags and offer your services at the employment windows of some of our concerns and see how many times they kiss you in the course of a week. Of all the bunk that they are still handing out in some companies!

I was told of the story of a married man with two children who walked across the city two miles, in below zero weather, because he did not have a nickel to ride, because someone had told him that a certain place was a good place to work. His only reception, and the only reward he got for that two-mile walk across the city, was the window slammed down in his face.

Let's be careful, folks, that the people who think enough of our industry to offer their services at our door, at least receive courteous treatment. I do not know of any place where more "good will" can be quickly and more permanently built than in the employment department. Likewise I do not know of any place where it can be more quickly destroyed. Let's be sure that the people who offer their services are received courteously by us.

A pawnbroker came into my office at the Stock Exchange, looking for a job. It was a peculiar thing. After I had chatted with him a while, I said:

"Would you mind telling me to what you owe your success as a pawnbroker?"

"The whole thing has been brought about in this way. I have two of the largest pawnshops in New York, one on the Bowery and one on 42nd Street. I have two boys going to college and they said, 'Father, when we get out on the campus and they ask us what our father's business is, we do not want to say that he is

"Three-Ball Harry on the Bowery." Well, I have made enough money now and I would like to get a job to take up my time."

"But would you mind telling me to what you attribute your success as a pawnbroker?"

"I don't know, but I think it is this—the day I opened my first pawnshop on the Bowery I made a vow that if any man was looking for a loan, I'd give it to him. If some old tramp with a broken penknife came and said, 'Uncle, I'm down and out, make me a loan,' I'd say, 'Sure,' and give him the glad hand."

"Why?"

"Because I had a hunch that maybe the wheel would turn some day."

And oh! how often it turns.

One of the members of the Stock Exchange turned to me one evening and said, "I started in my firm as an office boy." You want to be careful how you handle these lads coming in on your payrolls—you are employing the future presidents of the concerns. You want to be mighty careful how you meet the folks.

This pawnbroker said that he had had a hunch that maybe sometime the wheel might turn. A successful business man might need \$500.00. . . . "Why Uncle Harry? Of course he'll lend it to me without any question" . . . There are a lot of us in the employment and personnel business that do not use as much psychology in our jobs.

He came into my office one day, one of those future leaders, a kid with a blue calico shirt, part of his toes sticking through his shoes and after I motioned to him he dropped down beside my desk, trembling like a leaf. He had a rose on his coat. I said:

"Otto, I suppose some lady pinned that rose on your coat." He blushed and said:

"Yes, Mr. Beck, she did. I live over in a tenement house with my mother, who has been sick in bed for weeks. Every day a little girl gives Mother some flowers and this morning she gave me one of the flowers to put on my coat."

I chatted with him and finally he pulled out the rose and handed it to me across my desk and said:

"Mr. Beck, I would like you to have this rose."

"Oh no, Otto, that looks too good on your own coat."

"I want you to have it."

"Why?"

"Because, Mr. Beck, you're the only man who has been kind to me this week."

He came into my office with a card of introduction from an old friend stating that he needed work. His father had been sick in the hospital for weeks. I chatted with the boy a while and then said to him:

"My boy did you ever have a good surgeon take a look at those eyes of yours?" They were askew.

I would not have known where to place him—we could not have used him at the Stock Exchange.

"No, Mr. Beck, we can't afford that."

"Would you be willing to let a good surgeon look at them?" They would have been a handicap to him all his life. I went down to the trading floor of the Stock Exchange and to the first member that came along, I said:

"I have a boy upstairs. Do you know a good surgeon or know a member that knows one?"

"Send him to mine."

"The kid hasn't any money."

"Send me the bill."

Four weeks later, passing through a Jersey town, this old friend said to me:

"Cameron, have you heard about George?"

"George who?"

"The boy who was operated on. He was operated on in a hospital in New York, and he is back in town with his eyesight restored."

A long time ago, folks, a young man walking along the shores of an eastern lake saw two chaps in a fishing boat. He challenged them to a piece of service with the statement that if they would come with him, he would make of them fishers of men. A little later at a temple door a man held out his hands for alms—have we seen them on our job? This one man, suddenly conscious of the fact that the job had not paid much, left words that have become immortal. . . .

"Silver and gold have I none, but such as I have, I give to thee—I give to thee life."

What greater message can I leave with you folks who have the potential leadership of tomorrow in your hands? "I give thee life." Well that's our job.

CHAIRMAN KINGSBURY: Mr. Beck has given us a very clear conception of the motives which should lie back of personnel work, and I want to express to him the appreciation of those here for that inspirational talk.

Are there any questions you would like to ask Mr. Beck in relation to the work which he is doing at the Stock Exchange?

DELEGATE: I would like to ask Mr. Beck how he would go about picking the right man for the right job.

MR. BECK: About ninety per cent of our employees now consist of boys with high-school educations. We interviewed eleven hundred and eighty-two last June in order to get about eighty-six of them. But that isn't what you want at all. It is very difficult to give you any satisfactory answer to your question, except to say that the boy's personality, his school record and his attitude should be considered.

We are getting what I call exceptional ability. We are taking the boy who has completed four years of high-school. He is pretty good material. We check up his record. Here is an interesting observation: Last year we took nine boys who had lied to us on the application blanks. I said to Dr. Schultz, our Educational Director, "Dr. Schultz, I suppose a lot of people call them white lies. Let us flag their application blanks and see for our own information what happens to those nine boys." One hundred per cent of them caused us trouble. Dr. Hughes, of Iowa State College, said that he had issued an order to his registrar to the effect that a candidate to the college who lied on the application blank was to be disregarded by the college from the beginning, rather than to have trouble with him later on.

Regarding promotion—a boy starts as a page boy. He starts in the outside department, and he can't get to the inside department until he passes an examination involving eight hundred questions. When anyone says that youth doesn't amount to anything, I might say that

boys have passed that examination one hundred point perfect at the end of a week.

We struck a mental loafer the other day, who had had one year of college. I said to him, "I think you are loafing mentally and unless you pass the examination we will drop you from the roll." He said, "Is that the only way I can advance?" I said, "Yes." He said, "I will take the examination tomorrow." He took it the next day and he came right through.

We have a well organized plan of promotion through the floor of the Stock Exchange and the boys can't get

around this plan. It is not based on length of service but on mental ability. When you strike the four year high-school graduate, you have a pretty good selection to start with. I do not think there is any harm in a high school boy turning over his job a couple of times for the first two years.

CHAIRMAN KINGSBURY: Another company which has made definite forward strides in handling its personnel relations is the Henry L. Doherty Company, and I have asked Mr. Henry B. Bergen, Personnel Director of that company, to address us this morning.

Experiences in Handling Personnel

By H. B. BERGEN

Manager, Personnel Department, Henry L. Doherty & Company, New York, N. Y.

MR. CHAIRMAN and Gentlemen: Every supervisory employee in a business organization is confronted daily with the problem of personnel management irrespective of whether he is the president or a senior clerk supervising the work of two or three other clerks. The realization of this problem has led to the development of a relatively recent field of endeavor known by various names, such as Staff Relations, Personnel Relations, Personnel Management, Personnel Administration, Industrial Relations, and so on. Personally, I favor the term Personnel Management, which may be defined as the acquisition and maintenance of a satisfactory and satisfied working staff.

It is a well known fact that the importance of the so-called human factor in business has at last been recognized. Management has reached the conclusion that it must coordinate its economic aspect of reducing waste and increasing production with a social aspect of increasing satisfaction from work.

Unfortunately, in all too many cases, this conclusion has been not only the start but also the finish of any organized approach to a solution of the complex problems of personnel management. Many executives have deluded themselves by thinking they have really solved their personnel problems, if they have stated publicly at conventions and other gatherings that the human factor is the most important factor.

In other cases, however, employees' service activities such as lunch rooms, group insurance, employees' clubs and recreational facilities have been introduced. In fact, in some organizations these activities have been carried to ridiculous extremes. In most cases, however, consideration has been given to the worker as a member of a group, rather than as an individual.

While we should realize that a limited amount of employees' service activities and group projects are desirable when developed on a conservative basis, we should appreciate that the major problem of personnel management is the adjustment of workers to their work on the basis of individual differences. I was gratified to

note that Mr. Schwab, in his presidential address before the American Society of Mechanical Engineers last December, indicated that the major problem of human engineering was the recognition of individual differences. I believe that the problem of individual differences is especially important in trust companies and similar office organizations.

In considering individual differences, we must not lose sight of the fact that human traits are relative rather than absolute, that is, quantitative rather than qualitative. If a large enough statistical sample of the population be measured in a given trait, it will be found that there is a gradual shading from one extreme to the other (following the normal curve of distribution) of the number of individuals possessing various degrees of this trait. We must keep in mind, also, that individuals change sometimes imperceptibly from day to day and from year to year in characteristics and that the content of the work for which they are responsible often changes as time goes on. Because of such changes in characteristics and in work content, it is necessary to effect continuous adjustments between men and their work. Theoretically, at any given time, therefore, a worker should be the incumbent of a position which requires the same amount of each trait, no more, no less, than he possesses at that time. Practically, of course, we can only hope to approach this ideal.

The making of satisfactory and satisfying adjustments between men and their work is dependent upon the development and utilization of certain basic techniques. These techniques should facilitate the measurement of differences in positions and in individuals and should facilitate the adjusting of the individual to the position. Such techniques may be classified into three divisions: Techniques for analyzing work and establishing position specifications, techniques for evaluating human traits, techniques for adjusting men to work and work to men. Although these techniques may not be as accurate as might be desired, it should be recognized that they are much better than the haphazard methods which are usually employed.

Job Analysis

LET us consider first the techniques for analyzing work and establishing position specifications, including job analysis, the classification of positions, and the development of a compensation plan.

Job analysis is a process which results in establishing the component element of a position and ascertaining the human qualifications necessary for its successful performance. Job analysis should yield data which will facilitate the improvement of the organization plan, the improvement of methods, procedures, equipment, office machinery, etc., budgetary procedure and control, health control and accident prevention, the selection and placement of employees, training, and establishment of a position classification plan and a compensation plan. A complete job analysis requires several points of view, including such elements as the exact operations, procedures, office machinery, office equipment, forms and other materials, light, heat, ventilation, posture, hours of work, fatigue and rest periods, noise, compensation, human contacts involved, training, difficulties, supervision received and exercised, turnover, minimum age requirements, education and special training required, experience required, personal characteristics required, etc. Although qualitative analysis is the first step in job analysis, we must quantify the component elements and the human qualifications required if we are to measure and evaluate individual differences. The facts determined by job analysis are developed into standards known as position specifications which define the essential things which should be accomplished in performing proficiently the duties of a given position. These specifications may be expanded into various degrees of refinement, including the establishing of process charts, routine charts, standard practice instructions, instruction manuals, specifications for the required human qualifications, etc. Job analysis is a continuous process inasmuch as standards, specifications, etc., must be kept in current if they are to be of any practical value.

A position classification plan groups the positions of an organization into "grades" according to the similarity of their distinguishing characteristics, such as the duties and responsibilities involved and the qualifications required of their incumbents. A classification plan should facilitate the setting forth of lines of promotion and the development of an equitable and uniform compensation plan. A position classification plan is essential if we expect to eliminate departmental lines when promotions are being considered. The process of classifying should be under the general sponsorship of a committee of senior officers, although in a large organization a second working committee may be desirable. The research work should be the responsibility of the personnel research staff in collaboration with the executives, supervisors, and rank-and-file employees. We should bear in mind that a successful classification plan must appeal to the management, supervisory staff, and the workers because of its fairness.

A compensation plan is a plan by which positions as arranged under the compensation plan are evaluated in relation to one another and rates of compensation are specified for each grade of position. The compensation

plan should include salary schedules, premium schedules, sickness and death benefits, vacations and time-off standards, profit sharing, stock participation, pension schedules, etc. The most important feature of the compensation plan is the salary schedules. There is a distinct tendency in office organizations to establish minimum salary rates and maximum salary rates for each grade of position, based upon the classification plan. The other features of a compensation plan may be super-imposed upon the salary schedules. The importance, however, of establishing definite minimum and maximum salary rates for each position in an office organization cannot be emphasized too strongly.

The Interview

LET us next consider techniques for evaluating human traits, including the interview, the psychological test, the rating scale, the medical examination and other records.

The personal interview should facilitate selection and placement of employees, periodic adjustments, problem adjustments, and separations. We know very little about the art of interviewing, but there are various research groups who are attempting to develop better technique for interviewing.

The development of psychological tests is a slow, costly, and painstaking activity. Psychological tests, however, if properly developed by trained specialists should be of great assistance in the selection of employees.

The rating scale, as a technique for evaluating human traits has not reached the stage of relative accuracy as yet. There is a distinct need for better techniques for rating individuals. I should mention, however, that the present rating scales are much better than crude haphazard opinion. Rating scales should be of great help to us if we keep in mind their limitations.

The medical examination, attendance records, punctuality records, records of suggestions made by employees, the application blank, record of previous employment, etc., are techniques for evaluating human characteristics which are well known to all of us.

Training on the Job

LET us now consider the techniques for making adjustments, including acquisition of employees, training-on-the-job, supervision, promotion, salary adjustments and separation.

In the acquisition of employees, selection should be made through a centralized employment staff, although final selection should be the responsibility of the line executive or supervisor. The techniques for analyzing work and establishing position specifications on the one hand and the techniques for evaluating human traits on the other should facilitate the problem of selection. The problem of placement should receive special personal consideration of the department head and it should be facilitated by a sponsor system.

Less than 25% of the organized training activities of an organization can be taken care of by a special training department. More than 75% of the training must be training-on-the-job. It is important that all

supervisory employees, from the president down to the lowest grade of clerical supervisor, be trained in the technique of training-on-the-job.

The success of personnel program depends upon its interpretation to the rank-and-file workers by the supervisory employees. Supervisors must be trained to take the management point of view and not to pass the responsibility for decisions on to the management or to the personnel function. Moral courage must be developed in supervisors so that they will let each employee know at all times just where he stands. The importance of training supervisors by means of the conference method cannot be emphasized too strongly.

Promotion should be on an organization basis, that is, departmental lines should be eliminated. When a vacancy occurs, every one in a lower grade position irrespective of department should be considered as a candidate. Final promotional adjustment should be effected by the employment department with the approval of the department heads concerned.

Salary adjustments may normally be made on the anniversary of employment. Special salary adjustment, however, should be made at any time when justified by exceptional merit. In addition, salary adjustment should accompany promotion. An employee's salary rate should be based upon the salary schedules for his present position and upon his present progress in that position.

All separations should clear through the employment department. The exit interviews will give us an opportunity to accumulate turnover statistics. Such statistics should facilitate the development of better methods of reducing turnover.

In conclusion, let us consider the position of personnel function in the plan of organization. The personnel function may be classified into the following departments: employment, training, medical and safety, employees' service, and personnel research. The personnel function should represent the management in that it should have the authority of approving personnel matters. On the other hand, authority of disapproving such matters should be retained by the management. The main responsibility, however, of the personnel function, is to assist the line executive in solving his problems of personnel management. The line supervisor is the real personnel manager, inasmuch as he is the "Company" to the rank-and-file employees. The personnel function has the responsibility also of helping the individual employee work out his personal problems.

The development of personnel work, however, in an organization depends primarily upon how well the chief executives are "sold." Unless the "top" management will firmly support the personnel program, the work of the personnel staff will never develop to a high degree of effectiveness.

Value of Tests

CHAIRMAN KINGSBURY: The meeting is open for any questions that may arise in your minds. Mr. Bergen will be very glad to reply to any inquiries you may have. I would like to ask Mr. Bergen whether he finds the use of tests in determining employment of any real value and if so, whether that value is of a positive or negative

nature. Do you find, Mr. Bergen, that the tests you give your prospective employee merely show what he cannot do, or do you find it indicates what he can do?

MR. BERGEN: We have been experimenting with the problem for many years, and we are not as yet ready to state any very definite conclusions. But I will say that tests have been helpful from the standpoint of eliminating undesirable applicants. That is, we have found a certain form of so-called intelligence tests that will help to eliminate people who obviously do not have the mental alertness to carry on clerical work successfully. That is about the only conclusion that we have reached.

Developing the Executive

CHAIRMAN KINGSBURY: How do you proceed to develop individuals of your staff in order to make executives out of them?

MR. BERGEN: At the present time we have a Supervisory Conference Group. This Group is split up into several working units with about fifteen or eighteen men in each unit, and a conference method is used; that is, the consistent problems which supervisors must solve are brought up for discussion, and by means of the conference method these supervisors are required to express their viewpoints. We hope that this method stimulates their thinking along proper executive lines.

CHAIRMAN KINGSBURY: I asked the question largely because my observation and experience has been that a clerk is very frequently advanced into a position of importance where he has supervisory and even executive responsibility largely because he happened to be very alert and capable on his particular job, but with inadequate background and no training as a supervisor or a handler of men. And after his promotion he is allowed to go ahead without check or direction.

If there is no further inquiry, I want to express to Mr. Bergen our appreciation for his talk, and thank him for the time he has been able to give us this morning.

The motivating force back of the creation and activity of this Committee has been that of Mr. Leroy Mershon. Mr. Mershon has an intense interest in the question of service to the public needs. Such service is, of course, given only through the men and women who are employed in the banks, and this has meant that Mr. Mershon has been intensely interested in the development of the work of the Committee on Staff Relations. As this is the last opportunity which Mr. Mershon will have of meeting with us in his official capacity of Deputy Manager, I want to take the liberty of asking him to say a word or two to the group.

MR. MERSHON: Mr. Chairman and Gentlemen: I didn't come here this morning with the intention of saying anything, but this is a subject in which I am very deeply interested and have been interested for a long time. I have a boy twenty-one years of age, who had the privilege of working under Mr. Beck's guidance for some months. One of the things he is still worrying about is the fact that he left the New York Stock Exchange, which he did at my request because I wanted him to continue with his studies. He was very deeply impressed and he used to come home at night

and tell me the things which he observed there, so that I know first-hand that everything Mr. Beck has told you is true because it has happened to my own son.

I can pick out men throughout the United States who believe that if they take a whip and drive people that they can get somewhere, and I can take you into other institutions where there are men with big hearts who say, "Boys, here is a big job to be done," and the big job is being done and they are increasing the size of the institutions and everybody is happy.

Suggestions for Future Work

I WOULD like to make a suggestion to Mr. Kingsbury and to his committee, in regard to future work. The seventeen articles which were splendidly conceived and on the whole very finely executed, would make excellent material to be reproduced in some form and sent to all of the banks and trust companies of America, or at least to the members of the Trust Company Division. I suggest that the distribution be followed up with a letter signed by the Chairman of this Committee, asking the institutions which particular article applied to them and which appealed to them most strongly, and other similar questions. From such a procedure you will get back, I think, a lot of helpful replies. Members of the Committee should accept, on behalf of the Committee invitations to speak whenever possible. Successful personnel management, in my judgment, is the foundation of the success of very bank and trust company in America.

Future Activities

CHAIRMAN KINGSBURY: The time is growing late. As I have already indicated the Committee wants the thoughtful advice of those present on the question of its future activity. Its program must be developed in accordance with the desires of the group which it serves. As you think over the problems which come to you—and there must be problems facing your institutions as there are many that face mine, and many of which I have no answer for and would be only too glad to profit by the experience of others—are you interested in making a very serious attempt to continue the modest beginning which we have made this morning and provide a personnel and staff conference on a sound

basis? It has occurred to the Committee that a conference of this nature might well be held at the Convention of the Association at Philadelphia in October, and that speakers could be provided who might talk upon various staff problems which we face. In addition to that, the conference would give an opportunity for the development of general forum discussions to follow the various talks. I am firmly of the opinion that problems of personnel in which we are interested are as important as many of the things which ordinarily hold our attention at conventions, and I believe we are within reason in asking that we be given the opportunity of discussing the matters which lie at the root of the entire problem of bank service, namely, employment, organization, development, and personnel.

I am now going to ask whether or not a program of that kind appeals to you, and whether you would be interested in seeing that this is carried out. I am going to put it a little stronger and ask if you would be willing to do whatever is asked of you to help develop such a program. If you are interested, will you be good enough to so indicate it by show of hands? Practically every hand is raised, and the desire seems to be a unanimous one.

As to the matter of arranging a conference for the Philadelphia Convention, I have talked to Mr. Morton about the possibility of providing for such a meeting, and he has assured me that he believes it would be possible, and has asked me to get in touch with him by letter so it may be taken up by the Executive Council. Since that is apparently your desire I shall be very glad to see that it is done; but I warn you that my Committee and myself are bound to fall back upon the assistance of you who have shown your interest by coming here this morning.

If there is nothing else of importance to be taken up before this meeting, I will not detain you longer from your luncheon. May I say again that I am very glad to have had the opportunity of having Mr. Morton and Mr. Mershon with us this morning. I am exceedingly sorry that this will be Mr. Mershon's last appearance as Deputy Manager, as his advice in committee work and general problems of staff relations has been extremely valuable, and he will be sorely missed.

(Adjournment Sine Die)



Reception Committee

NINTH MID-WINTER TRUST CONFERENCE

- H. L. SERVOS,
Vice-President, U. S. Mortgage & Trust Company, New York, Chairman.
- RICHARD R. HUNTER,
Vice-President, Equitable Trust Company, New York, Vice-Chairman.
- RALPH L. CERERO,
Vice-President, National Park Bank, New York.
- E. L. COLEGROVE,
Assistant Trust Officer, Guaranty Trust Company, New York.
- BOYD G. CURTS,
Vice-President, New York Trust Company, New York.
- PETER DURYEE,
Vice-President, Seaboard National Bank, New York.
- WILLIAM FEICK,
Assistant Vice-President, American Exchange-Irving Trust Co., New York.
- FRED W. GEHLE,
Vice-President, Chase National Bank, New York.
- WM. WICKHAM HOFFMAN,
Vice-President and Trust Officer, National City Bank, New York.
- L. G. McDOWALL,
Assistant Trust Officer, Fidelity Union Trust Company, Newark, N. J.
- WALTER McMEEKEN,
Trust Officer, Manufacturers Trust Company, New York.
- IRVING H. MEEHAN,
Secretary, Farmers' Loan & Trust Company, New York.
- FRED'K C. METZ, JR.,
Vice-President, Bank of New York and Trust Company, New York.
- JOHN D. PERRY,
Vice-President, Chemical National Bank, New York.
- C. C. PRICE,
Trust Officer, Bankers Trust Company, New York.
- C. ALISON SCULLY,
Vice-President, National Bank of Commerce, New York.
- J. Y. G. WALKER,
Vice-President, Central Union Trust Company, New York.
- H. F. WHITNEY,
Trust Officer, Empire Trust Company, New York.

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